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PUBLICATIONS  
OF THE  
AMERICAN ECONOMIC ASSOCIATION

THIRD SERIES  
Vol. VIII. No. 2

ISSUED QUARTERLY  
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PAPERS AND DISCUSSIONS  
OF THE  
NINETEENTH ANNUAL  
MEETING  
PROVIDENCE, R. I.

DECEMBER 26-28

FEBRUARY, 1907

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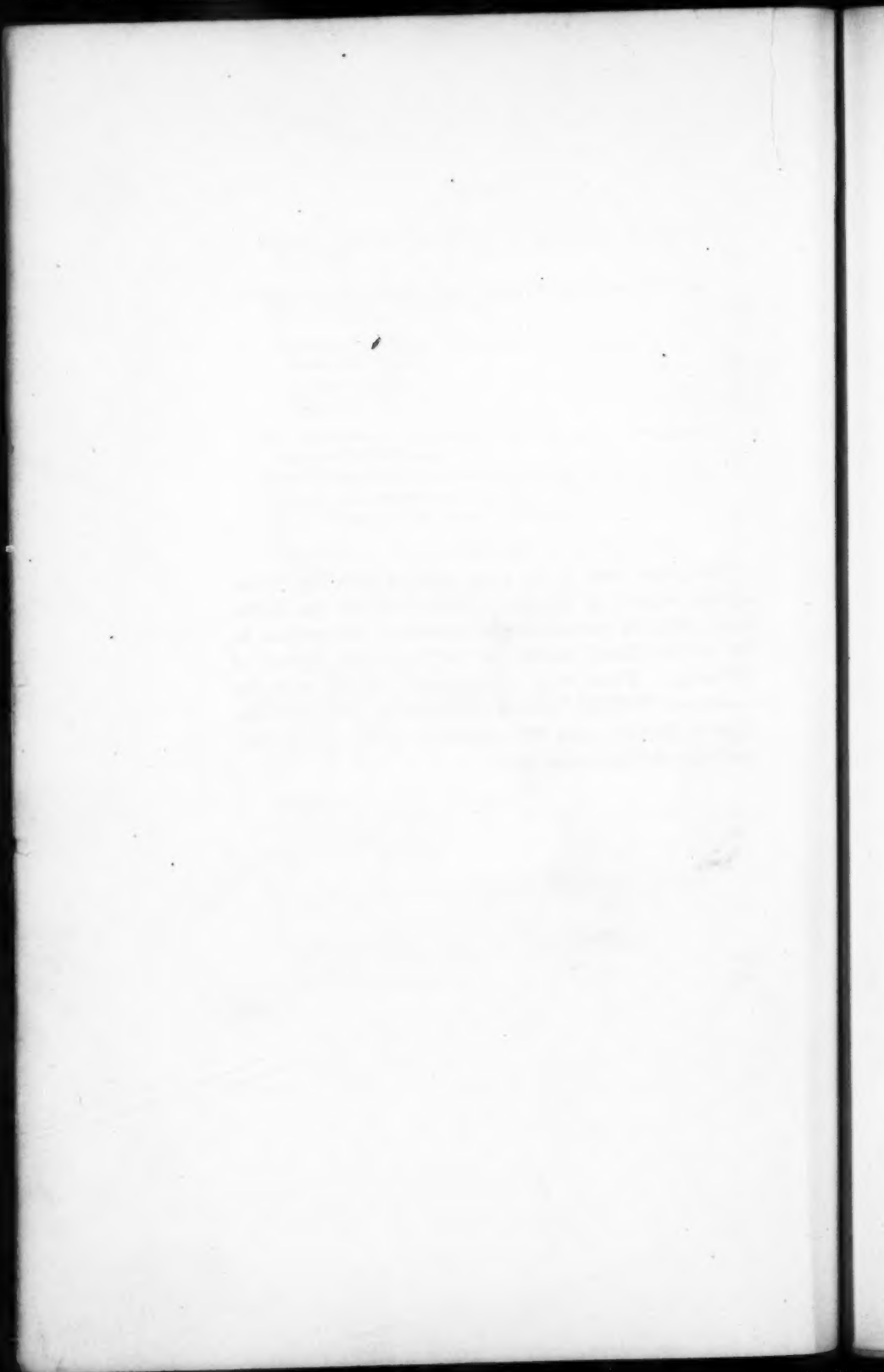
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#### NOTE.

The paper read at the joint meeting with the Sociological Society on Western Civilization and the Birth-Rate, with the accompanying discussion, was printed in full in the March number of the American Journal of Sociology. Those read at the joint meeting with the American Political Science Association, with the discussion thereon, have been published in the annual Proceedings of that Association.



## THE MODERN STANDARD OF BUSINESS HONOR

Address of the President  
JEREMIAH W. JENKS

In discussing the question of the standard of honor found to-day among business men in their dealings with one another and with the public, I wish to make it clear at the outset that my purpose, primarily, is not to defend nor to condemn either men or practices, but, as best I can, to understand. Furthermore, it is not necessary for my purpose to raise the question of the philosophic basis of morals. Interesting as that question always is, its discussion is profitless from the viewpoint of practical civic improvement.

In spite of the pessimistic tone of many of our popular writers, it is certain that, in most fields of endeavor, society is improving in its methods and in its purposes. Why not in business methods and business aims? At no other time in the world's history has there been so kind and intelligent a treatment of the poor and the defective; at no other time have men been so humane in their treatment of animals and in their dealings with their fellowmen in the event of war or of great misfortune; at no other time have deeds of courtesy and acts of mercy been so numerous as now. The fact that within the last few years so many influential business men, not only in the United States, but also in other countries, have en-

gaged in operations that have shocked the sense of justice and honor and fair-dealing, seems out of harmony with the general trend of social events. It was certainly not to be expected that men who seem entirely conscientious in all their dealings, public and private, men who apparently in all private relations lead exemplary lives, men who have won universal respect, should suddenly in their business be found engaged in acts illegal and dishonorable. In explanation there seems only one alternative: either our standard of business integrity has changed; or we have found difficulty in applying our former standards to modern conditions.

Doubtless within the last decade in business positions of importance weak men have been found who have yielded to temptation. But many acts condemned by public opinion have been committed by men who are not weak and who apparently have had no sense of guilt. The fact that there are weak or wicked men in business, while true, is not sufficient as an explanation.

We are all creatures of custom; we generally drift under the inertia of habit in thought as well as in action. In consequence, changes in social or business conditions take us unawares; we need time to readjust ourselves. Meanwhile we do foolish and wrong things. The old ways do not fit the new surroundings. Consider, for example, the blind despair of the cotton weavers in England, when, early in the last century, the power loom displaced the hand loom, and thousands were thrown out of employment. They did not understand; they could not foresee the inevitable; and, in their foolish rage, they smashed the machines. But they were no more foolish than are many men of the present day who hope and expect to see the business of railways and gas companies, natural monopolies, regulated by competition. This mental or social



inertia, which prevents us at times from seeing the meaning of social conditions, has, to be sure, a conservative power that is often beneficial; but it has also its evil side, and it affords a partial explanation of many acts which we are inclined to condemn as wrong. This is a social fact never to be ignored. How does it fit our problem? What are the new conditions of business which may affect our standards of honor? Four characteristics of modern business have an important bearing upon this problem:

- 1) Business is done on a vastly larger scale than ever before.
- 2) The modern business man does not come into personal contact with his workingmen, his customers, or the consumers of his products, as did his predecessor of half a century ago.
- 3) The directors and officers of our great corporations are now trustees for thousands of stockholders; earlier the corporations did not exist, and there was no such trusteeship.
- 4) Large profits from monopolies that are legal, but sometimes economically and socially unjustifiable, are more frequent now than earlier.

These facts demand thoughtful consideration. When two or three grocers or butchers in a country village formally, or informally, agree to maintain prices, the transaction is not materially different in nature from that of an agreement between different members of a beef-trust, or from the so-called "gentlemen's agreement" to maintain rates on our railways. But, in the first instance, while a few customers have their private opinions about the meanness of their neighbors and fellow-church-members, no one feels that a serious wrong has been committed, altho in that locality a monopoly has been produced;

whereas in the case of the Trust, properly enough, there is world-wide condemnation. Are the cases different in nature or only in degree? In the one, a village is the victim of monopoly; in the other, a nation. In the one case, the monopolist is a petty tyrant to be despised; in the other, a monster to be feared. Such different effects are produced on our feelings merely by an increase in the scale of operations.

Results no less striking are produced by lack of personal association. Dr. George P. Watkins, in a paper as yet unpublished, has properly laid great emphasis upon the well-known fact that the wealth of the rich is held to-day so largely in the form of stocks and bonds that the owner has little personal touch either with the property which his securities represent or with its management. He knows that he has so many thousands or hundreds of thousands of dollars invested in this railway or that corporation, but so long as he draws his dividends promptly, he is often content not to know more. Until the middle of the last century the situation was vastly different. The wealthy man managed his wealth himself; he saw with his own eyes the work, the home-life, the personal conditions of his workmen. As a merchant or as a manufacturer, he dealt personally with his customers and price-fixing might well be a matter of personal discussion. The transaction often assumed the nature of gift or favor, on the one side; on the other, that of personal appeal. When dealings are on a small scale, discriminations between persons are often not only not injurious to society, they are highly commendable. When, however, the articles purchased or the services bought are not for immediate consumption but for further production; when the effect of the discrimination, instead of ending with the personal bene-

fit of one individual or of a small group of individuals, involves the wealth or ruin of rival establishments employing thousands of laborers, the discrimination becomes a public danger. The driver of a stage-coach may if he will, give a lift to a weary traveler or to a personal friend. When the local magnate whose freight is half of all the freight hauled by the coach asks a favor, it will be granted; and few people are harmed thereby. When, however, a railroad corporation, bullied by threats of injury to business, grants a favor to a great manufacturer, this favor may mean a monopoly that will take millions from the people. (We may properly note as a fact that rebates by railroad companies or special favors by the manager of a great corporation have, relatively speaking, been very rarely given to personal friends for personal reasons, tho personal favors were common in the small transactions of an earlier generation; but rebates have often been extorted by great establishments, and often freely granted by railroads to secure large shipments.) But in any event, while we should all approve the generous action of the stage-driver, we all, rightly, condemn the railroad. The railroad is a common carrier, a creature of the public. It is, however, easy to see that a business man, whether cordial and kindly or eager and grasping, when working for the extension of his trade, may not take time to follow thru all their intricacies, the manifold baleful effects of his acts of discrimination. He sees his own benefit; he overlooks the public injury.

And this principle is everywhere active. It is alive in our human nature. The removal from personal contact with their laborers, with their customers, and with the consumers of their products, takes from business men the sense of the cruelty and meanness which their acts

would sometime be seen to have, if the consequences were immediate and personal. Nearness, personal touch, is an active force. Many a ruler has signed the death-warrant of a criminal whom he has never seen, an account of whose guilt he has been willing to take from others with little investigation, when he would have hesitated long and investigated much more thoroly, had he been compelled himself to be the hangman. Many a ruler, who, in upholding the so-called honor of his country or of his dynasty, has sent thousands of men to torture and death, would have found other ways of satisfying the demands of honor, or might even have revised his views of the nature of honor, had he been compelled himself to lead his columns into battle, himself to see the carnage, or to take the risk of personal suffering. In similar ways our great business leaders, who are kindly in personal disposition, who take warm delight in relieving suffering, whose word in business transactions is as good as a bond, whose private life is touched by no breath of scandal, will, at times, with comparatively little investigation, because the books show a falling off in profits, order a cutting of wages, or a slaughter of prices, or a raid on the market. In taking these precautionary or profitable measures, they feel that they are doing praiseworthy acts, and have little or no thought of the sacrifice of public interest thereby entailed, or of the thousands of people to whom they may bring suffering.

Again, the director of a great corporation, or its manager, feels it his first interest and his most obvious duty to care for the welfare of the stockholders for whom he is trustee. The fact that he is himself a stockholder merely stiffens this mental attitude. The fact that his own position is dependent upon his so managing the business as to secure good dividends for his stockholders,

sometimes consciously, sometimes unconsciously, tends to blind his eyes to the social results of many of his acts. When, then, the question comes to a director, or to the president of a corporation, whether he shall observe the law, (which may even, at times, seem to him unjust), at the expense of sacrificing the dividends of thousands of stockholders for whom he is a trustee, and perhaps incidentally of sacrificing his own position if he fails to earn these dividends, even tho he knows that the violation of the law may injure some people to him personally unknown, it is natural that he should feel the pressure of his trusteeship for his stockholders more strongly than the pressure of his trusteeship for the public. He does wrong. I am not excusing him. I am trying to understand him; to see how a man who is upright and honorable in most matters does wrong in business.

I have had important shippers say to me that they not merely disliked to receive rebates contrary to law, but that they would use their every effort to secure a law which would prevent the granting and the acceptance of rebates. But when, from current prices, they saw that one of their rivals was receiving a certain rebate, and that unless they secured a like concession, they would be forced out of business, was it to be expected that they would hesitate? Without the rebate, the interests of their stockholders and their own personal interests would be sacrificed. With it, tho contrary to law, they and their rivals would be placed on an equal footing. Their interests enable them to see their stockholders near at hand; the public seems dim in the distance. Let us try to be fair. It may be that we are partly to blame. If our laws are unjust, we must share the guilt.

The manager of the great corporation may often give other reasons for his acts that sound very interesting.



With the welfare of many thousands of stockholders in his hands, he says, he finds himself situated in many respects as is the ruler of a small state, entrusted with the welfare of his people. But it has been held by many writers, to say nothing of practical statesmen, that instances not seldom occur where a ruler must sacrifice the ordinary principles of morals as applied to private life, in order to follow what he considers the "higher law" of caring for the welfare of his people. Ought we to do evil, from the private viewpoint, to secure the public good? This question of political ethics is touched later. But, to make clear the point, I may perhaps venture to quote from one of the great writers on politics and morals, Gustav Ruemelin, late Chancellor of the University of Tübingen, a few words which seem to be approved by one of our own late distinguished publicists, Frederick W. Holls:

"A man," he says, "should be magnanimous and generous only at his own expense, not at the expense of others. Wherever force is permissible strategy cannot be debarred. Where it is allowable to take life [as for example in war] it cannot be improper merely to deceive, and in case the same result could be obtained by either method, deception is preferable, as being the more humane and indulgent. . . .

"...It would be folly in war for one of the combatants to renounce the right to make use of spies among the subjects of the hostile state by means of corruption. The conditions in which the higher interests of a state or a nation are at stake transcend ordinary rules and principles, and they upon whom supreme responsibility rests can hardly afford to be impeded by the threads of casuistry."

And again: "How can the golden rule be applied

to the relation of one state to another? None of the ties which bind man to man can join state to state. . . . The command 'Love thy neighbor as thyself,' cannot be applied here. The state is so far from turning the left cheek to him who strikes the right, that on the contrary, it does and must endeavor to anticipate even a threatened blow with an energetic counter-stroke. . . . In short, the entire chapter of the duties of love, which is the chief doctrine of the moral law, has no application to the conduct of the state. A nation depends, not upon the love of others, but upon the love of self, upon the fostering and development of its own power and prosperity; and if we characterize this by the term 'egoism,'—a term indeed that is scarcely applicable—then egoism certainly is the foundation of all politics."

In short, this political standard of morality, so often advocated by statesmen, says practically: Rulers as trustees for their fellow-citizens cannot follow in all regards the standards of private morality. It is their duty as trustees, at all hazards, first to preserve the existence of their state, and, secondly, to secure its prosperity, as they see its prosperity. Naturally, also, their willingness to guard this prosperity is increased by the fact that they as rulers will gain thru the strengthening of their state.

From this principle thus stated, baldly, and with unpleasant frankness, is derived the principle in accordance with which a ruler claims the right and feels the duty to summon his fellow-citizens to sacrifice their lives for the advancement of the state; from which he feels called upon, in case of their refusal, to compel them against their will to go to war and die for the existence, and often for merely the greater prosperity, of the state. And as he defends himself for these public acts (which otherwise would be murder) on the ground of supporting the

national honor or the national life, so he defends himself for the commission of other acts less heinous than murder in private morals, such as deception, bribery, obtaining property under false pretenses, robbery. If it is right for nations to fight for their national existence or for their national honor, it is surely right, he urges, for them to secure information regarding the strongholds, or the military or naval equipment of the states with which they may be brought into conflict, by bribing their officers. If it is right in time of war to seize the territory of the enemy and keep it (a kind of highway robbery) in order to have a better defense thereafter for the home territory, it is surely right to obtain the same territory for similar purposes by wilfully creating a misunderstanding about a boundary line and insisting upon it. Acts such as these I am not defending; but they are, as a matter of fact, condoned when committed by statesmen: in many cases they are even looked upon as praiseworthy.

Without judging these questions now, note the applicability of these principles to modern business life. When a great corporation magnate feels himself a trustee for the interests of his thousands of stockholders, in some instances more numerous than the citizens of some of the smaller states, he finds himself tempted to business acts which he would reject without hesitation in his private capacity. The Mutual Life Insurance Company of New York, for example, has some 600,000 policy-holders whose interests doubtless touch closely not less than 3,000,000 people, *i. e.*, more than the population of Denmark. As heads of political parties, men conscientious in their private relations, have often not hesitated to bribe and to use all kinds of deceit to win an election, and have excused their acts on the

ground that their opponents are doing the same, and that the welfare of the state depends upon the success of their party; so the manager of a corporation, knowing well that his rivals are violating the law by accepting rebates, or evading the contract labor law, or the laws regarding the labor of women and children, and that if he does not do the same, he must go out of business, sacrificing thereby the interests of his stockholders, feels called upon by his sense of responsibility, misguided perhaps, but none the less real, to do likewise. Men of irreproachable private life, good husbands and fathers, Christian gentlemen in their private acts, will at times send spies to discover the secrets of their rivals in business, will bribe the employees of their competitors to disclose the secrets of their employers, will take every means possible to secure an advantage which in a private game they would consider unsportsmanlike and mean; and they will justify themselves to their own consciences for these acts. When the president of an insurance company contributed to the campaign fund of a political party, the success of whose principles he felt would insure the welfare of his stockholders, he did not feel that he was stealing from his stockholders; he was using their money, he thought, as much to protect and preserve their interests as if he were hiring a policeman or paying for the services of an expert adviser. A man in such a position has felt that he must protect the welfare of his company, and that to him means, usually, to pay the largest dividends possible. Like the ruler of the state, in many cases he commits these acts with the greater zeal, altho sometimes concealing the real motive even from himself, because an increase in dividends makes his own position more secure and often increases his own salary. He is wrong; he has forgotten the still greater interest of the

public. Our eyes now are open; but how many of us two years ago would have seen clearly if we had been given the same problem to solve?

The temptation has been more subtle, too, from the fact that in very many instances fortunes have been made thru the legal right to enjoy an unearned increment of profit, whether of rent or monopoly, which tho legally justified has been economically and socially unjustifiable. Do not misunderstand me. Tho I find fault with some of our laws, I am not denouncing our present organization of society, nor talking about any "natural right," nor advocating any sweeping revolutionary measure of reform. Genuine reforms cannot come that way. Few customs are altogether wrong. Social wrongs are seldom suddenly righted. Human nature is not readily changed. And few business or political principles are universally applicable. Let us note some examples.

Probably no saner or wiser or juster policy on the whole was ever adopted by any people than that by which our country under our homestead laws gave to our frontier settlers the unearned increment of rent of land—the policy which has made our central west the granary of nations, its people perhaps the most prosperous of the world. But this striking example does not argue that land-rent should always under all circumstances go untouched to a private owner; nor that land laws which work injustice should not be changed. I am not discussing, for example, absentee landlordism.

Again while private monopolies, copyrights and patents, and even private ownership of natural monopolies like gas plants and street-railroads may often be wise and just, it is still on the other hand clear that very many of our gifts of franchise of monopolies and many of our laws which have encouraged monopoly, while constitu-



tional, have been economically unjustifiable. In fact, they have been at times productive of manifold political and social evils. The making of great fortunes, legally, but in ways felt to be unjust, has in many instances tended strongly to obscure the moral vision of well-meaning men, whose weakness has led them gladly to confound legality with social righteousness. And their acts, again, have formed the excuse for others to break a law that was really working injustice.

A profit thru an unjust, tho technically legal, stock-watering scheme may well prove far more demoralizing in business circles than an illegal rebate which saves from ruin a grain-shipper caught at a disadvantage.

But let us not be unjust. These evil practices, these excuses for wrong-doing, are not confined to our great capitalists. Even the excuse of trusteeship is not confined to the managers of the great capitalistic corporations. It permeates our business life. The same sentiment is felt by the heads of the great labor organizations. Like the glow of patriotic loyalty which leads citizens to sacrifice on the battlefield their own interests and those of his families and friends for the honor of their country, the unselfish feeling of members of trade-unions often leads them heroically to undergo bitter privation for themselves and for their families in order to further the welfare of their organization or of their class in society. But they, too, often go too far. How often in the appeals of labor leaders we hear the metaphors of war. They are "battling for the rights of the toiling masses!" How often we find them ready to adopt the methods of warfare; to resort to deception, and even at times to violence. It is hardly too much to say that, generally speaking, the argument of the labor leaders against violence in support of their demands.

is not that violence under the circumstances would be unjustifiable on moral grounds, but that it would be unjustifiable on practical grounds: *i. e.*, it would change the public sentiment in favor of their employers and would be likely to make them lose instead of win their fight.

And we all of us in all business relations are very likely to employ similar methods in a small way. Look thru the hundreds of columns of advertising in our daily press and in our magazines.<sup>1</sup> Everywhere exaggeration of excellencies, concealment of defects. Seldom bare, simple truth. Shall we conclude, then, that most of us have a share in the guilt of our unscrupulous business magnates? Is it not clear that the evils have sprung, not from any real lowering of moral tone, but from the same age-long mental and moral inertia which ever leads us into new conditions before we are ready to readjust old ways of thinking; from our primitive selfishness which likes to yield to temptation; and from the naïve readiness of our humanity to find excuses to please our consciences? We are not worse than were our fathers; we have had the benefit of enjoying some new temptations before our consciences have been primed with clearness of economic insight. Can we find any remedy?

First we must try to see clearly what is the right standard of business honor. The aim of the state, *i. e.*, of

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<sup>1</sup>The Chicago Legal News, December 29, 1906, reports a late case, *Harris v. Rosenberger*, 145 Federal 449, in which the Federal Circuit Court of Appeals upheld orders of the Postoffice Department, forbidding the use of the mails to a whisky dealer who in his advertisements had represented himself as a distiller of long experience and his product as "ripe, old whisky," when he was not a distiller at all, but only a dealer, and his whisky was comparatively new. This decision is an excellent late indication of the awakening of honorable sentiment, while the facts show clearly our business customs.

society organized for positive action, is to secure for its citizens not merely life, but abundant life of the highest type: economic prosperity with moral excellence. It is for the government to see, and it is for us citizens in a popular form of government to see, how this can be best secured; and we must consider not only the distant ideals toward which we are pressing but we must recognize with clear eyes and patient heart the weaknesses of human nature and the conditions which place barriers in our pathway. Then only we must act.

It is, then, the duty of the state (that is, it is our duty, for we in our organized capacity are the state)—it is our duty so far as possible to make the conditions such that human nature will not be tempted beyond its strength; but such that thru its struggles it shall gain a new strength for better and higher work and for the better and higher life; and that we, individuals, corporations, and states, shall be able in these conditions so to act that, in business as in politics, our ideals on questions of morals and honor may be carried out, as fast as possible, even if slowly.

The duty, then, is imposed upon the government, upon us, of changing the conditions of business, so that the ethical standards of our private life may be more promptly extended to our ever-changing business life. The state, for example, must in actual practice forbid the use by business men of any means which are injurious to the public interest, such as the building of unsanitary factories, the unprotected use of dangerous machinery, the employment of child labor or of laborers under any conditions or by any methods that the more conscientious, more merciful employers would not tolerate if they were not compelled to do so by the competition of their more unscrupulous rivals. It must cut off the possibility of

special favors to the strong; it must search out and prevent dishonest practices of those whose wealth comes not from service but from plunder and fraud, whether legal or illegal.

Second, it is the duty of all of us to recognize that in business as well as in politics the laborer is worthy of his hire. Each of us should feel that our work is primarily for the service of society; but we should also feel that when others are rendering a service to us or to society, they should receive the just reward of that service. Thru their weakness and thru our selfishness, thru unenlightened self-interest, (not enlightened self-interest, for enlightened self-interest takes into view a nobler society), we have often tempted people into dishonest practices by holding them down to unjustly low rewards, by trying always to buy in the cheapest, not in the fairest, market. The Consumers' League is doing a little to combat this tendency, but the bargain counter is still ahead, in high places as in low. The demand, public or private, that a man whose services are actually worth \$50,000 a year shall receive only \$5,000, is as wrong economically and morally as that a skilled wage-earner shall receive only a pittance to keep him from starvation. The main difference is that the strong man is more likely to take indirectly and wrongly the \$50,000 which he feels he has earned. Under our competitive system of industry, we as individuals should be glad to give the largest profit to him who either renders to society the best service of all the competitors, or by masterly and just organization of his business can render equal service with less expenditure of industrial energy. We should discriminate between fortunes gained by real service and those gained unjustly by gambling speculation or oppressive monopoly. We should be wil-

ling to give the largest profit, however large it might be, to the competitor to whom it is rightly due, because he has earned it by service. We should not join in the denunciation of the wealthy simply because they are wealthy, nor on the other hand object to fair wages because they are fairly high. We should denounce only the unjust. It would then be much easier than it is now to exclude cheating, misrepresentation, adulteration.

Third, The beneficial result of honesty, good laws and good service can best be secured by publicity. This must be attained in part by the sanction of the state, in part by the education of public sentiment. The chief reason why, under present circumstances, it is necessary to have business secrets is that the buying public is not willing to give the higher profit to the man who renders the better social service and carries on his business with a view to the real interests of his workmen and of the public. We assume, generally speaking, that the manufacturer is asking too high a price, and we are all of us looking for bargains. When we are willing to pay adequately for actual service rendered, men can much more easily do business under the public eye.

No one realizes better than I do how difficult it will be to bring about this result. And yet it is certain that we have already in our society taken many steps in this direction, and that part of the present outcry against the abuses of corporations has come just because the public is so much better trained in this direction, and because we are more sensitive to justice now than ever before.

Even when these things are done, we may scarcely expect that there is to be an immediate revolution in moral ideals or in business practice. We may not hope that by exposures of corruption, however flagrant, public sentiment can be quickly changed; that, by act of legislature,

reforms can be quickly brought about; or that by the mere election of an honest, clean-minded Governor or President, honesty and honor will at once permeate the public service and change the tenor of private business. But we do know that already something has been accomplished in all these directions, and we think, that by a careful analysis of the conditions and a steadfast effort on the part of the thinkers of society, a higher standard of honor in business as well as in politics can probably be steadily and surely, tho slowly, approached.

But we must not overlook the political problem: If our assumption has been true that the apparent lowering of the standard of business honor in late years has been due in some degree to the normal shifting of the attitude of the manager of a great corporation, who feels himself a trustee for his stockholders, to the attitude of the ruler of a state, we need, before our study is complete, to judge the ethical standard of the political ruler. While from the days of Machiavelli, and, later, of the anti-Machiavel rulers, students of political science have, with perhaps equal conscientiousness, differed on the question of the attitude of rulers in the appreciation of moral principles to public questions, no one who has observed the trend of modern history can doubt that both the weight of public opinion and the practice of governments are steadily uplifting the ethical standards of rulers toward the ethical standards of private persons, as idealised in the precepts and life of the Founder of Christianity. When we realize that all of us, even in this advanced age, are controlled by custom in dress, social entertainment, business, politics, religion; that in many communities the man who eats with his knife is far more certainly ostracized than the guilty party in a divorce suit, or the man who gains wealth by wrecking railroads on the stock exchange, we



need not blame rulers, who, in earlier days, confused diplomacy and deceit, might and right. They, too, were merely following custom. But in these days, with the public opinion of the great nations of the world upholding the ideals of justice and courtesy, it is far more easily possible for the ruler of a state to secure its safety and prosperity, by resting upon the principles of international law, supported and enforced by the judgment of the civilized Christian nations. It is coming to be the fact that it pays a ruler and a state to be just and fair, and to tell the truth. Among nations as among business men, in the long run, if the sentiments of individuals are right, good morals pay. We have every reason to believe that this tendency also will steadily develop, until not merely the public, but also the private acts of rulers will be subject to tests even more rigid than those applied to private persons in their private capacities.

In this sphere also, as well as in that of business, the ultimate forces at work are those of human intercourse, economic, political, social, often working unconsciously, and public opinion, whose power strengthens as it becomes conscious. The only way in which we can hasten the wished-for result (and we must not neglect our task) is by educating the people—our masters—by giving to them the right ideals. It must eventually be fully recognized, as it is beginning to be recognized, that the greatest service a state can render to itself as well as to the world, consists, not in warfare, not in extension of territory, not in hostile rivalry, not in overreaching foreign countries in dealings with them, but in the prosperity which comes from ever more closely linked intercourse in times of peace; by this intercourse, while receiving benefit from other countries, each state in return will render service to them.



I am not advocating a so-called weak foreign policy: quite the contrary. To be just and honest and truthful, a ruler need not be blind to the faults of others nor afraid to stand for the rights of his people. Indeed, he must demand right as well as do right. But he must look to ultimate good in the highest moral welfare of his people and not merely to the glitter of the business profit of to-day. The reputation for honesty and truthfulness, too, will give any statesman a decided advantage in negotiation. Consider the reputation and success of Secretary John Hay in his later years. As in the case of private business, the greatest reward should come for the greatest service, so, as each country in peace contributes to the welfare of others, it will receive—as it should receive—the returns that will be most beneficial.

It is easy to see that the public moral sentiment of the world is already aroused. And we have every reason to believe that in the sphere of politics, as well as in that of business, we shall see an ever-accelerating progress. In the future, our great business men will not be able to shelter themselves behind the defense of the statesman, and claim that the "higher good" impels them to do deeds that are evil in private life. The issue ultimately depends upon us. We, the individuals who compose the state, must shoulder the responsibility. If we make felt, thru the state and thru public sentiment, our determination to do right and justice in national affairs and in private business, and define right and justice in terms of service, not of selfishness, neither statesmen nor business men will refuse to yield. It is right for us to find fault with our politicians and our business men. They have deserved it; but we should also find fault with ourselves. Their crimes and cruelties are no more ignoble than are our petty deceits and meannesses, our selfishness and conceal-

ments, our search for bargains, our eagerness to get on. It is a cheering fact that we are now seeing the evils in politics and in business. Our eyes were dim to new abuses. The misdeeds had to be on a grand scale to attract our attention. But now we see them; and seeing them clearly, we shall soon see farther. Ultimately we poorer, common people in private life will see our own faults. Then progress will be faster. There is still much more to do for each of us, in seeing more clearly the application of the simple, old-fashioned principles of private honesty to the great transactions of corporate business and to the still greater problems of statesmanship.

Some years ago, one of my ablest and best-liked colleagues took me to task because in writing about the Trusts I had, while trying to point out the evils, noted some good in them. "But did I not show the bad, and was not the good true?", I asked. "Yes," he replied in substance, "I don't deny that; but we want to get the people to act in correction of abuses; and the people will not act unless their feelings are aroused. We lull them into inaction by balancing good and evil; let us show the evils, the Trusts themselves will show the good." Highly as I regard my friend, and noble as I know his motives to be, that seems to me pernicious doctrine. It has in it the seeds of revolution, not of progress. In social evolution, the race is rarely to the swift, but always to the safe and sure, and nothing less than transparent honesty is safe. Underlying all our social structure is our standard of business honor with the right application of that standard to our complex social conditions. This can be secured only by showing to our people not merely truth about business, but the whole truth. We must fix our standard; we must gradually approach it.

Heretofore our business standard has really been: "the greatest possible reward for self in return for the least service." When we once see ourselves clearly in our social relations, in business and in politics, we shall see that the fitter standard is: "the greatest service possible for a just reward."

It may seem a "lame and impotent conclusion" that there is no legislative panacea for our business ills, but that upon us as individuals rests largely the responsibility for our social improvement. Clear-sighted and impartial observation of facts, including human nature, is our only safe guide in social reforms; our only methods must be the commonplace ones of preventing abuses and securing justice in specific cases by legislation and judicial action and by compelling men to work in the open—not some inclusive scheme of social reorganization. We must content ourselves with this conclusion. Its justification is our complex human nature and the experience of the ages.

ON WHAT PRINCIPLES SHOULD A COURT  
OF ARBITRATION PROCEED IN DETER-  
MINING THE RATE OF WAGES?

JOHN B. CLARK.

In a progressive society the prices of goods tend toward the cost of producing them in the most efficient establishment. As improvements in method and in organization are continually making, the standards of price are continually falling and the actual prices pursue the standards but lag behind them in their downward movement.

If all the producing establishments were at once brought to the highest plane of efficiency, the labor cost of commodities would be at a minimum; and this signifies that the product of labor would be at a maximum. Since, under free competition, the wages of labor tend to conform to the product imputable to labor, wages also would be at a maximum.

Competition gradually brings all producing establishments which survive and cater to a general market toward the plane of efficiency set by the most advanced competitor. The product of labor increases and thus furnishes a rising standard of wages. The actual pay of laborers pursues but never overtakes the standard set by this increasing product. In this sense the standard of wages of to-day is the product which is realized by some employers now and will be realized by others in the future.

Wages in the present are normal if this standard toward which they are tending is itself normal and if present earnings fall below that amount by an interval

that is fixed in a natural way. When competition is general and free both the standard and the interval are normal, but monopolies, by checking progress, lower the standard toward which wages are tending and increase the interval between the standard and the prevailing rate of pay. They reduce the present *marginal* product and the pay of labor.

When some industries are receiving profits due to monopoly they pay wages which are based on the rates generally prevailing, though they may somewhat exceed these rates. The prevailing wages are reduced by the monopolies' action in limiting the opportunities for employment.

Wages, under any mode of adjustment, are *governed* by the product of marginal social labor, but may differ from that product by varying amounts.

When employers deal with individual laborers the wages resulting may fall below the product of marginal labor. The workman is forced to sell something which the employer is not obliged to buy, since he can dispense with any individual's labor with little or no loss. When an employer deals with an organized body of workmen the men offer what they must sell and what the employer is forced to buy if he continues producing. He cannot dispense with an entire body of workmen.

In making their contract for wages the workmen hold a strong position if it is difficult for their employer promptly to secure the amount and the quality of labor which he needs by resorting to the general market. The skilled and disciplined force is worth more than a new and untrained force and can often get an amount of pay that approximates the standard set by the product of marginal labor.

The workmen's position is stronger and their pay is

higher when they are permitted to guard their positions against other claimants. If they can strike and still maintain a quasi ownership of their positions and forcibly repel other men who wish to occupy them, they can sometimes secure pay which is in excess of the standard set by the social productivity of labor. Their wages equal the standard rate plus a sum that varies according to their power to guard their vacated positions.

The workman's power of coercion depends on the toleration by the community of acts of violence. With the laws fully enforced the workmen who should strike would lose control of their positions.

The toleration of violence by the local community is due to a fear lest the easy filling of the vacated positions by necessitous men who make their bargains individually may result in a rate of wages that would be below the normal standard. Whenever a new force can be made up from men who have been for some time out of employment this possibility acts in advance on the rate which an organized force now at work can successfully demand. Certain organizations of laborers would lose some of their present strategic power if they were forced to obey the law.

Without a system of arbitration the community has to choose between allowing the presence of some unemployed men unduly to depress wages and allowing organized laborers to monopolize their positions and defend them by force. This latter alternative means quasi anarchy and frequently requires an appeal to the military power.

Wages are highest where employers' monopolies secure extortionate prices for goods and trade unions secure for their members a part of the profits thus realized. Employers and employed in the favored industry thrive

at the cost of the purchasing public, while in other occupations labor is somewhat congested and wages are depressed.

Strong unions working for competing employers ensure high wages when they are able to limit the number of their own members and forcibly exclude other men from their field.

Unorganized labor working for monopolies may secure moderately high wages in the cases in which the employers' position is rendered insecure by public action and support by their employees is necessary for averting a loss of profits.

Unorganized labor working for competing employers gets the lowest rate of wages which are paid in regular occupations, though men who have for a time been out of employment will accept wages which are below these rates.

The foregoing facts may be represented by the following diagram:

Monopoly and  
organized labor

Competing employers  
and organized labor

Monopoly and  
unorganized labor

Natural standard of wages

Competing employers  
and unorganized labor

Unemployed labor

Wages measured by distance above this line.

In all the instances in which wages are adjusted by collective bargaining the amount of power which unions



have forcibly to exclude rival workers from their fields is an element in determining the rates of pay which they secure for their members.

This power of forcible exclusion is an element in determining the wages which are adjusted by conciliation, since the rate which workmen will accept is gauged by what they might extort by a strike in which the exclusion would play its part.

Force plays a certain part in the adjustments which are made by those special tribunals of arbitration which contending parties create while strikes are pending, since workmen are unwilling to accept such arbitration unless they have reason to expect that it will give them something approaching what a strike would yield, and that itself depends on the amount of violence they can safely use.

Force would play a smaller part in the adjustment of wages by tribunals which are compelled by law to take action whenever strikes are pending, but are not armed with power to enforce their decisions. If workmen reject awards made by impartial tribunals, they cannot count on a tacit acquiescence by the public in acts of violence against non-union laborers.

Force would play scarcely any part if a law, in providing for the compulsory investigation of disputes between employers and employed, required that work should go on while the investigations were in progress and should confirm the laborers' tenure of place on condition of their accepting the court's award, but should declare the tenure forfeited if the award should be rejected. Workmen will not actually sacrifice their tenure of place and will not be allowed by the community forcibly to hold it while they reject a just rate of pay and other men accept it.

Wages when adjusted by such semi-compulsory arbitration would more closely approximate their natural standard than they do when otherwise adjusted. If this system were generally introduced the condition of laborers as a class would be much improved, though the gains which a few secure by acts of violence would be forfeited.

WAGES ADJUSTED BY ARBITRATION—DISCUSSION.

HENRY ROGERS SEAGER: (After reading the above outline of the paper which Professor Clark had been unable to present in person and adding a few words of explanation, Professor Seager suggested the following propositions drawn from it as those most deserving of fuller discussion:)

(1) The normal trend of wages in progressive societies is upwards.

(2) The standard to which wages should be adjusted is the product of marginal social labor:

(a) Is this the ideal standard?

(b) Can it be defined with sufficient precision to be of any practical utility as a guide to a board of arbitration?

(3) Violence or the threat of violence is a potent factor in enabling trade unions to secure wages above the normal rate for their members.

(4) Arbitration is necessary to secure, on the one hand, fair wages for unorganized workmen, and, on the other, proper regard for law and order on the part of the organized.

(5) The system of arbitration best calculated to secure the desired results is that which requires the continuance of production pending an award, and imposes as a penalty for unwillingness to accept in good faith the award when made, permanent discharge from employment in the establishment affected.

F. W. TAUSSIG: The precise question before us is as to the principles which a Court of Arbitration should follow in determining wages. How closely must that question be connected with the problem of general wages, as this latter is considered by economists? Professor Clark

seems to think the connection close. He rests his advice or recommendation to the supposed Court on that theory of wages which he has developed with such originality and ingenuity,—the theory of the specific, or imputed, productivity of labor. I am not convinced of the solidity of the reasoning on which this theory rests; and I am in still greater doubt as to its helpfulness for the question in hand. It seems to me to have little bearing on the question before us. Specific or imputed productivity, like the wages fund, bears on the *general* division between capital and labor. The importance of these general problems is not to be disputed. They are in the highest sense practical, since they consider the justice of society's operations and the welfare of all its members. But the questions before a Court of Arbitration are practical in another sense. They are always questions of *specific* wages. They refer not to the general reward of labor or capital, but to the wages of a particular group of workmen. Now of course specific or particular wages are by no means disconnected from general wages. But in the concrete world the general rate is always assumed. No Court of Arbitration bothers about the causes determining general interest. If it did, how much help would it secure in fixing them from any theory of specific productivity or social productivity? Fortunately this large question never presents itself. A Court has to settle or recommend only the wages of motor-men, plumbers, masons, spinners, weavers. And even as to these it never has occasion to consider the matters which we economists usually think about,—the fundamental causes of variations of wages in different employments and in different social strata. We are probably on safer ground as to particular wages than as to general wages; we are more nearly agreed as to the existence of non-competing groups, the

obstacles to competition, the application here of the principle of marginal efficiency or marginal utility. But no Court has occasion to consider these questions or to fix the wages of any entire group. The wages of all skilled mechanics of a given grade, of all workmen of motor-men's grade, of all common laborers, never come up for settlement at once. It is always a limited, specific question that presents itself, and the wisest policy for a Court is to confine itself to that limited question.

Now the best advice we can give to a Court on such a question is, in my judgment, to tell it to exercise its plain common sense,—just the one thing which the members of a Court usually are capable of doing. Assume as just or proper the general scale of wages in the country or district in question; assume as just and proper the wages usually got for the particular kind of labor in question; compare it with other similar labor, of like hardship, difficulty, conditions of demand and supply; and prescribe the "fair market rate." Most people mean by fair prices the going market prices, and are quite incapable of troubling their heads about labor value or marginal utility. Similarly they mean by fair wages current market wages, and do not trouble their heads about social productivity or a sharing between labor and capital on the basis of specific contribution. Let them exercise their common sense on the matters they are competent to deal with, and exercise it from the point of view and in the way which is natural and easy for them.

From this simple point of view, certain moot points may nevertheless present themselves. Some of these I will briefly refer to.

1. Is the fair market rate that at which laborers can at once be found to replace the contesting laborers, or is the fair market rate that which must be paid in the long

*During cyclical changes?*

✓ run for labor of equal efficiency and trustworthiness? Clearly, the latter is the test which should be applied. Whenever a strike or contest breaks out, employers say with truth, or at least with speciousness, that they can find plenty of men willing to work at the wages offered, or at less than the wages offered. In fact, there are always plenty of men—partly ne'erdo wells, partly the inefficient, partly the unfortunate—who will accept almost anything. Any employer can therefore make a pretense of filling the vacant places with these. The real question is at what rate capable, self-respecting, and permanently serviceable laborers can be got and retained.

2. Sometimes violence, or the threat of violence, or persuasion and intimidation of a kind not permitted by the law, have been used in advance, and have aided in establishing a going market rate. Clearly this sort of market rate is to be disregarded by a Court of Arbitration. Let the Court consider solely what would be the operation of the competitive forces within the limits permitted by the law.

3. Sometimes the going market rate has been made high by restriction of the supply of workers, by limitation of the number of apprentices, by an effective trade union which has succeeded in "organizing" the entire supply, by successful collective bargaining. Here, it seems to me, a Court of Arbitration should accept the going rate, even though the result of something like monopoly conditions, as the fair market rate. So long as the methods permitted by the law have not been infringed, any opinion which the Court may have as to the right or wrong, the expediency or in expediency, of what are called monopoly conditions, is not material. It remains for the law to modify the situation (say, by the establishment of public trade schools on a large scale), or for slow moving

*implicitly involves  
Clark's theory*

social forces to modify the conditions of labor supply. A Court of Arbitration should accept the *status quo* and make its decisions as nearly as possible in accord with lawful conditions as it finds them. Its policy should be not to create new conditions, but to make more smooth and peaceful the working of existing forces. It cannot always prevent a trial of strength, but should try to make the outcome such as it would be as the result of a trial of strength.

4. Another question is as to the relation between wages and the capitalist's gains in the particular trade or the individual business. Shall a Court of Arbitration take into consideration how large are the profits of the employer and whether he can afford to pay higher wages? In general, the answer here should be "no." The individual employer may or may not be prosperous. Workmen, none the less, should receive the going rate, and no more than the going rate. This precise question was presented, I believe, to a Court of Arbitration in connection with a street railway strike in San Francisco. In that case, the Court did not commit itself on the question of principle. I suppose that even in an extreme case of monopoly conditions, we should say there was no ground for the monopolist's being called on to share his gains with those who have been in his employ. Let him disgorge, if we can bring about this happy result, to the community as a whole and not to a particular group of it. And in any event, setting aside the equities of the situation, the simple fact is that the monopolist is sure, sooner or later, to get his labor at the market rate. The same conclusion holds even more certainly where an individual employer is capable, and prosperous because of his capacity, and is asked to pay more than the going rate because he individually happens to be able to afford it.



In all such cases, it is probably to the interest of the employer himself to pay quite the full market rate, even a trifle more, in order to secure the pick of efficient labor; and where questions of public convenience or public safety are involved, this consideration may fairly be taken into account by a Court of Arbitration.

5. Does it follow from the preceding, that the method of the sliding scale should not be sanctioned by a Court of Arbitration? This does not seem to me necessarily to follow. The limits of market wages themselves necessarily fluctuate in some degree in the large industries. For considerable stretches of time, even tho not in the long run, employers and employees are in sort of partnership. This is the case in such widespread trades as the iron trade, the coal trade, the cotton trade. The sense of solidarity will be promoted, friction will be avoided, by a sliding scale of the kind apt to be used. Such a sliding scale does not follow all the changes of profits and prices, but provides for variations of wages within the range of the fluctuations of usual market wages. Such an arrangement commends itself to the ordinary feeling of the everyday man as to what makes current wages and fair wages, and for that very reason is likely to be cheerfully accepted as the outcome of arbitration.

LOUIS B. SCHRAM: Speaking from the view-point of the practical employer of labor, untrained in the theories elaborated in Prof. Clark's paper, armed only with the knowledge and training gained by actual experience, I must express the view that arbitration boards could gather but little help from a study of that treatise.

Arbitration Boards of the present day are largely composed of men who can consider the questions submitted to

them only in a practical, matter-of-fact way. They are not verted in Prof. Clark's theories and are not swayed by his reasoning, to them in most cases probably unintelligible.

Before outlining the principles which, I believe, should govern Arbitration Boards in the consideration of the wage question, it may be in place at this time to say a word about the constitution of such Boards. Theoretically an Arbitration Board consists of three or more fair, unbiased judges. Practically, as at present selected, Arbitration Boards consist of two or more intensely partisan advocates and one judge. The award is expected to have the dignity and weight of a well considered pronouncement of a board of judges; it is in fact the decision of a single man, unaided by unbiased consultants, nay rather harassed up to the moment of final decision by eager representatives of the litigants, zealously fighting the cause of those who chose them.

This condition is not conducive to satisfactory results. What is the remedy? In my judgment it will be found in a numerically very large board of official arbitrators, not less than twenty-five in number, men of known intelligence, probity and practical experience and selected as nearly as may be in equal proportion from the ranks of employers and labor representatives. Who shall select these men? Some authority whose position precludes the possibility of bias through political or other influence, such as the senior judge of the Federal Court of the district in which the Board is to act. When an arbitration is to be had, the litigants take the list of official arbitrators and alternately strike off the names of those not desired until the required three or five names are left, and these men then constitute the Arbitration Board.

Having a competent and impartial Board we can now proceed to the consideration of the question before it.

In the first place I would exclude the principle that the rate of wages should be determined by the rule of supply and demand. While this commercial law may regulate the price of commodities, I find that it will not regulate the price of labor because labor is not a commodity, or if it is, it is a commodity plus ambition, plus hope, plus determination to rise; a commodity backed by organization determined and able to gratify this ambition, realize the hope and bring success to this determination.

And it is well that it should be so. The laborer of to-day is much more valuable to the commonwealth than was his predecessor of a few generations ago because of the realization of these very hopes and ambitions. Employers of to-day were the wage workers of yesterday, and he is but a poor representative of the working class who is satisfied to remain a workman all his life and to see his children grow up to the same humble fate. As the workman is entitled to wages which will give him an opportunity to enjoy a measure of the good things of life, and to hours of work which will leave him time to know his family and to share in the task of guiding the training of his children, and to conditions of employment that will ensure sanitary surroundings during his work, so the employer is entitled to a fair return on his investment of capital, brains and administrative and constructive ability. To do justice to the wage-earner, Boards of Arbitration should take into consideration the cost of living, the nature of the work with reference to the amount of skill required, and the dangers to health and risk of injury attending the employment.

To do justice to the employer the Boards should consider the stability of the business, safety of the capital

invested, chances of machinery and appliances depreciating through use or change in the nature of output by reason of the public taste. They should also consider to what extent the personality of the employer is of importance by reason of executive capacity and ability to secure business.

A third element to be considered by Arbitration Boards in fixing wages is the claim of the public to fair treatment. Wages should not be fixed arbitrarily high if thereby an unfair burden is thrown upon the consumer.

The thinking employer does not begrudge the workmen liberal wages, short hours and comfortable surroundings. The days when the employer paid his men as little as he could, worked them as long as he could and expended the minimum upon their comforts, are forever gone. The majority of trade disputes arise partly from honest differences of opinion as to what the employer can pay, partly as the natural result of the wage-earner's ambition to rise in the world and in good faith claiming more than is his due.

*no light get thrown  
on what is his due.*

This situation should be met by all in a spirit of toleration, liberality and good-will.

I am glad to be able to say from experience that the ranks of employers and wage-earners show an ever-increasing number of men who in their dealings with each other are actuated by motives of fair play and good-will, each considerate of the just claims of the other. A striking illustration of this is furnished by an arbitration in which I participated some years ago. A manufacturing firm in New York had trouble with its employees; there was a strike accompanied by physical violence and unlawful acts by the employees; the business of the employer was suffering and great pecuniary loss was imminent. Arbitration was sought by the employer and re-

fused. The excesses continued. A proposition to the strikers that the dispute be submitted to the arbitration of a Board composed entirely of representatives of organized labor was finally accepted. This Board of Arbitration composed of three labor leaders heard the controversy and decided in favor of the employer. The decision was cheerfully accepted. There has not been a strike or the threat of a strike in that industry to this day, a period of about five years.

Let Boards of Arbitration foster this spirit of tolerance and consideration; let them keep in mind the laudable hopes and aspirations of the working man without penalizing the employer, whose right to a fair return upon his invested capital in view of the risks attending his business must be protected, and who is entitled to compensation for his own ability in addition to the earning power of his capital.

ADNA F. WEBER: The fact that unorganized labor may in a degree participate in a general advance of wages such as has taken place since 1897 should not blind us to the inadequacy of competition to secure anything like fair wage conditions for unorganized workmen. When McCulloch wrote that unduly low "wages in any branch of industry would be raised to their proper level, without any effort on the part of the workmen, by the competition of capitalists",<sup>1</sup> he of course knew nothing of the facts presented to us of to-day by Booth and Rowntree in England and government offices or commissions in the United States. The miserable pittance won by the toil and privation of seamen, marine firemen and dock workers; the almost incredibly long hours and low wages of the workmen employed in some of the cellar bakeries of New York City; the bare subsistence wage of

<sup>1</sup> Art. "Combinations", in *Encyclopedia Britannica*, 1823.

many of the home workers in the clothing trades,—do not lend much encouragement to any theory of wages that seeks equitable adjustment in unrestrained competition. And while the current productivity theory in many ways helps to a clearer understanding of industrial relations, it does not to my mind furnish the practical guidance that arbitrators of industrial disputes must have. I have been unable to derive from the abstract of Professor Clark's paper any such formula. Most of the modern English economists admit (to quote the words of Professor Nicholson) that "there is no short simple rule by which the normal rate of wages in any employment can be determined over a long period or in the long run. We cannot assign with any degree of precision the superior and the inferior limits between which it must lie, and thus we cannot fix upon any point about which the market rates must oscillate."

The only rule that has heretofore met with any general acceptance in the arbitration of wage disputes has been the correlation of wage rates with prices. This practice has long been followed in the English iron trade (and also in the sliding scale in the American iron industry), but has broken down under the contention of the workmen that their standard of living should have precedence over all questions of profit. In this country the question of price seldom enters into consideration among arbitrators unless the employers through combination enjoy such a degree of monopoly as enables them to control prices. The tendency now is toward the idea of a standard of living as the basis of deciding wage disputes. The wealth and natural resources of the country are so ample; and the ability of the consumers to pay almost any advance in prices has been so fully demonstrated in recent years, when we have seen the volume of consumption increase in the face of advances of 50 to 100 per cent.



in the price of necessities, that the force of the argument in favor of a high standard of comfort becomes almost irresistible.

The practicability of defining at least the minimum requirements of a standard of living seems to be demonstrated by Rowntree and other private investigators. The labor bureaus have always been interested in comparative cost of living, and at recent national conferences have appointed committees to prepare a uniform schedule. Still more recently the charitable societies of New York have undertaken to define the actual requirements of a living wage. When all of these plans shall have been carried out, arbitration boards or committees will have at their command an extremely useful measure of guidance for deciding disputes in the overcrowded trades, which it might be expected would be the first to benefit by the substitution of judicial inquiry for force or coercion, as advocated by Professor Clark. Unfortunately, however, those are the employments that are least likely to secure advantages by the method of compulsory investigation, which is not a substitute for organized effort on the part of employees. As a matter of fact, we already have laws providing for public investigation of disputes, for that method is authorized in most of the statutes creating arbitration boards in the various commonwealths. The reason why the boards have not exercised such authority is not far to seek. *Permanent* boards of arbitration necessarily form a part of our political system and are therefore subject to local political pressure, which in nine cases out of ten is strong enough to prevent any interference with what the disputants term their private affairs. Unless the dispute causes inconvenience or injury to the general public so as to arouse public opinion in their support, public mediators find it next to impossible to



take even the first steps toward a public investigation. The industries least affected by a public use, and hence least likely to arouse public sentiment in favor of a public investigation, are precisely the competitive industries with their unorganized and overcrowded labor market.

At first, therefore, any scheme of compulsory investigation would be confined to the quasi-public utilities, and it might be advisable to limit the application of the statute to railroads, street railways, gas companies, etc. For each dispute there should be created a temporary body of conciliators or investigators on the model of the Canadian railway labor disputes act of 1903, which has produced some excellent results. And it is in these industries that violence is most to be apprehended.

Disputes in industries not affected with a public use might be dealt with in other ways. In the first place, they do not by any means always involve violence, and it therefore seems necessary to qualify Professor Clark's statement that "the workman's power of coercion depends on the toleration by the community of acts of violence." Last year there were in New York about fifty successful strikes, and few of them, I am convinced, involved actual violence. The most important dispute of the present year has been the strike of the printers for an eight-hour day; but it has been almost entirely free from violence. We need to recognize the difference between legitimate coercion through forms of ostracism practiced in all ranks of society, and the illegitimate use of force. A statute placing some restraint upon the issuance of injunction writs would discourage violence in the same way that the Anti-Pinkerton laws did—i. e., by depriving the more unscrupulous employers of the aid of the government in protecting disorderly strike-breakers. Andrew Carnegie lately declared that it was a mistake for an employer to attempt

to replace strikers with new men. In any event, the law should prevent the hiring of men to take the place of strikers without giving ample notice of the existence of the strike. The fact is that our whole law of conspiracy as it affects industrial disputes is in a chaotic condition. The British House of Commons in carrying out a popular mandate has fully recognized the workman's claim that there exist legitimate means of coercion not dependent on physical force. If equally liberal laws were enacted here, a good deal of the injustice that provokes violence would disappear.

JOHN A. RYAN: Almost all of Professor Clark's analysis of the forces affecting wages is unexceptionable. The method of wage-adjustment that he proposes under the name of semi-compulsory arbitration is highly desirable from the viewpoints of justice, the public good, and the welfare of labor. There are, however, certain conclusions, chiefly in the final paragraph of the summary of his paper, which are not entirely convincing.

1. That semi-compulsory arbitration would cause wages to conform more closely to their natural standard than would any other method, is open to doubt. An arbitration board would probably be guided by the rates of wages generally prevailing, rather than by any conception of the natural standard derived from economic theory. On this basis the wages awarded would approach the natural standard closely or remotely, according as the trade or occupation was unorganized, or partially organized, or fully organized. Moreover, the arbitrators would probably take some account of certain other considerations, such as recent changes in the cost of living and the undesirable character of the work. Labor unions would probably be able in the course of time to advance wages, by other methods than those of physical force,

thus placing before the arbitrators new and higher standards. In an entirely unorganized and poorly paid occupation, an arbitration board would probably, at least in some cases, fix wages above the prevailing and competitive level. This probability would increase in proportion as the public became more conscious of the ethical dignity of the laborer. Only on the assumption that wages would be advanced farther by organization under the present regime than by organization plus a more enlightened and humane public opinion under a system of arbitration, is this conclusion of Professor Clark likely to be realized.

2. Should arbitration boards attempt to fix wages at the natural standard, the condition of laborers as a class would not be improved nor the largest practicable measure of justice achieved. Actual competition is not, indeed, perfect; but arbitrators could not make sufficient allowance for the various forces of inertia and friction to make their awards accord exactly or even approximately with the hypothetical rates of perfect competition. The utmost that they could accomplish in this direction would be to approximate the wages that would prevail if there were no monopolies among employers or unions among workingmen. In most of the organized trades this would mean lower levels of pay than those now existing. In many of the industries and occupations in which there is neither monopoly nor labor unions, the wages now prevailing are below the requirements of elementary justice and humanity. Yet these rates would form the closest approach to the natural standard attainable by a board of arbitrators at the present time. Will the natural standard of the future be higher? We have no certainty that it will. The editors of the volume on "Manufactures" of the Twelfth Census tell us that during the last decade of the nineteenth century the displacement of labor

by *new forms* of capital "had a real tendency to lower the actual average earnings of the wage-earner in many of the industries." This is a phenomenon that has confronted society ever since the Industrial Revolution. And there seem to be no good grounds for a confident prediction that free competition will cause the future to differ essentially from the past.

3. Professor Clark seems to attribute too much importance to the factor of productivity as a rule of justice, and as a standard for the guidance of arbitrators. This is especially true of his attitude toward marginal productivity. Now it is impossible to know whether the specific product of the laborer, the product that is specifically and entirely due to the presence of the marginal man, the product therefore that is "economically imputable" to him, is the true equivalent of the amount or proportion that he has created. When the amount of capital used by a given number of laborers is increased the productivity of the individual laborer is said to increase; yet he may expend no more creative force, as measured in terms of brain and muscle, than before: why then say that he produces more? The joint product of capital and labor is not a composition; it is more akin to a living organism. Every part of it has been produced by both factors. What sufficient warrant is there for saying that the relative productivity of capital and labor is correctly represented in the rewards assigned to them by supply and demand in the conditions of perfect competition, rather than in the conditions of monopoly or labor unionism?

4. Even if the marginal productivity of any group of laborers under free competition exactly measured their actual productivity relatively to the other productive factors and other labor groups, it ought not to measure the awards of an arbitration board. Where there is question

Doesn't know  
the meaning of  
"produce"

of a joint product, the productivity of labor stands lowest, and that of instruments second lowest, in the scale of ethical titles of reward. The primary title of reward, as of ownership in general, is that of needs. Productivity is ethically inferior to effort, sacrifice, and hazard. When two men who are unequally endowed by nature produce unequal amounts with proportionally equal efforts, are they not equal in desert? The amount by which one product exceeds the other is not due to the original source of creativeness and responsibility in the man who produced it, namely, his will. It is due to a superior endowment of nature for which he is not responsible. Why then should he receive a higher reward than the other man?

It seems to me, then, that a board of arbitrators should strive to secure before all else a decent living wage for all workers, including the employer. In aiming at this primary end, they ought, if necessary, and in so far as practicable, to cut down profits and dividends and to raise prices. Where the question of a living wage is not involved, they ought to place such considerations as effort, sacrifice, danger and disagreeableness of work, before productivity, whether of labor or capital. In general, productivity should be considered almost wholly from the viewpoint of expediency, and given only as much weight as is necessary to evoke the best social results.

*How arbitrate, independently of the total to be divided?*

DAVID I. GREEN: As one in general sympathy with Professor Clark's theory of wages I have been interested in Professor Taussig's statements as an exposition and extension of that theory. Professor Clark tells us that a court of arbitration should seek to adjust wages in accord with the natural marginal productivity standard. Of

course the natural rate would vary according to the circumstances of each case, and Professor Clark does not tell us how to find this rate under the varying conditions. This deficiency has been admirably supplied by Professor Taussig, whose suggestions as to what the court should do under the varied conditions named seem to me to present not only the common sense methods but the thoroughly scientific methods from Professor Clark's standpoint. I see no antithesis whatever between them except in the one instance when Professor Taussig advocates the acceptance of an artificially high wage in cases where the employer is able to shift the burden upon the consumer. I should agree rather with Mr. Schram, that a court of arbitration should exert a restraining influence in such cases. We are far too complacent in accepting artificially high prices. The unfortunate condition of some portions of our population, which has been referred to by two of the speakers, is not due altogether to competition nor to the lack of organization, but can be accounted for in part by the fact that some of the progress made by other groups has been at their expense.

If our boards of arbitration had a clearer knowledge of economic theory it would give them more courage in upholding the common good when opposed to the interests of a limited group.

JACOB H. HOLLANDER: Professor Clark's interesting paper contains two fundamental assumptions from both of which, I think, many economists would wish to voice emphatic dissent.

The paper assumes, in the first place, that under normal conditions—by which is meant equal competitive power—the wages of labor tend to conform to the product imputable to labor. However plausible and attractive is

this "productivity theory of wages," as a scientific doctrine, it is hypothetical and unverified, tracing back to John Locke's theory of private property and winning place in the theory of economic distribution by abstract speculation rather than by inductive reasoning, or by concrete corroboration.

In the second place, even if competitive equality secured for the laborer a wage equivalent to his social marginal productivity, it by no means follows that a court of arbitration should accept such a natural wage for its standard. Social consciousness, crystallized as legislation, has never hesitated to modify the results of free contract in a manner consonant with the public good. Just as society has already determined that the primary conditions of employment—the length of the working day, the use of women and children, the safeguarding of dangerous machinery—shall be fixed in accordance with what the welfare of the race demands rather than by what free contract, even under the fullest equality, evolves—so a court of arbitration may hesitate to consign a laboring force to anything less than a standard of economic decency, even though free competition should so determine.

JOHN MARTIN: Two links in Dr. Clark's argument appear to me to be very weak. First, he assumes that trade unions cannot ever win strikes without the use of violence. Though that assumption may seem justified if only the action of American unions at critical times be considered, it is overthrown by the history of unions in countries where unions have had a longer history. British unions regularly win strikes without violence. I cannot remember, for example, a single case of murder committed by a union in Great Britain since the Sheffield outrages in the sixties, though strikes involving tens of



thousands of laborers have often occurred, and the men have won in a large proportion of cases. So certain is it that violence is not essential to strike success, that the cotton spinners of Lancashire do not even picket during a strike, because they know that people to fill their places cannot be got. Such picketing is quite legal in Great Britain, though it is generally forbidden by court injunction in America. Were peaceful persuasion and picketing fully legalized here, probably the violence in strikes would be minimised; first justice, then rigorous maintenance of order, would, I think, show Dr. Clark's assumption to be groundless.

The second link in his reasoning I wish to comment on is the suggestion that, if the laborers refuse to abide by the decision of the arbitrators they have been ordered by the government to accept, they shall be punished by the loss of their jobs. First, in Australasia, where the compulsory arbitration has been tried, the men have never yet been recalcitrant. The danger of their refusal to abide by a decision of an impartial court is small, though the courts so far have had no scientific rules for their guidance; their decisions, according to the testimony of Mr. Pember Reeves, have been made empirically or by common sense. But should the workmen rebel against the decision it would be no cure to turn them from their positions. That is exactly what they would want and the employers would resent. Since, presumably, practically all the men in the particular business are affected, to declare them industrially outlawed would kill the business and the employers would be the greatest losers.

HENRY R. SEAGER: In reply to Professor Taussig, I would urge the importance, under a system of compulsory arbitration, of demanding more of arbitrators than that they adjust the wages under consideration to "current

rates" in kindred employments. Such a plan lacks the progressive element necessary to the success of arbitration in a progressive country. In New Zealand and New South Wales, if wages were not advanced above "current rates" in prosperous times by the courts of arbitration, wage-earners would be deprived of their fair share of prosperity. It is necessary, therefore, to agree whether the system of arbitration is to be general and compulsory or merely local and voluntary, as a preliminary to agreement as to the rules which may be laid down for the guidance of boards of arbitration.

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In conclusion I desire to record my conversion to the view that there is urgent need, either through boards of arbitration or through legislation, of establishing minimum rates of wages, which shall insure decent standards of living for all who are regularly employed, and present squarely to the community the problem of providing for and training those who may be "unemployable" until they become able to earn the minimum wages.

OTTO M. EIDLITZ:<sup>1</sup> Compulsory arbitration for the settlement of labor disputes, has, up to date, received no very enthusiastic support from men prominent in the ranks of employer or employed. It signalizes the intrusion of the outsider in family affairs, with the possibility of non-consent by those vitally interested in the question at issue.

The material growth of this country in the last ten years has been so unprecedented in the history of nations that we may fairly consider ourselves pacemakers, and compelled by virtue of that fact to develop for ourselves

<sup>1</sup> On account of its late receipt, it was not possible to insert this article in its proper place in the discussion.

the permanent method for securing "industrial peace with honor."

Whether any compulsory method of settlement inaugurated by those outside of an industry would secure the much to be desired end, is at least a debatable question. In my opinion we are going through a period of stress as well as a formative period, and no fixed rule can as yet be evolved for the settlement of labor questions on account of the extreme diversity of the problems that present themselves, even though the fundamental factor of capital and labor is always present. The remedy, if it is to be beneficial and lasting, must be developed by practical and actual test and amended, revised or discarded as experience will teach. Whatever the plan proposed may be for the settlement of labor disputes in any industry,—that industry should have ample time to demonstrate conclusively its inability within itself to settle such disputes, due consideration being given always to the outside interests, directly or indirectly involved.

The ever-present menace to industrial peace is the inherent selfishness of human nature, and one of the surest antidotes is fear. In other words, for any industry to be at peace, both sides of the house must be thoroughly organized and all their dealings with each other must be tinged with apprehension.

This condition is of prime importance in the building and allied industries, railroads, public service corporations, etc., and but less so in manufacturing interests where daily attendance in the same place under the same conditions bring the all powerful factor of habit to make for a peaceful attitude. Moreover the personal equation of the management is of far greater import when exercised within the factory or shop.

Perhaps the nearest approach to compulsory arbitra-

tion in this country is the present arbitration agreement between the Building Trades Employers' Association of the City of New York and the Unions of the Building Trades. This plan for the arbitration of trade disputes has been characterized as compulsory arbitration by many of the leaders of the trades unions, and for the reason that the Employers' Association compelled the acceptance of an arbitration agreement by a number of unions through the medium of a lock-out.

Two years after the acceptance of this Arbitration Plan on the part of the unions, a convention was held, and the agreement was amended in many particulars. Since the holding of this convention, the Arbitration Plan can properly be termed a voluntary and mutual agreement.

The Employers' Association is avowedly on record as determined to maintain this arbitration agreement at any cost rather than permit a return of the conditions existing previous to the year 1903 and has repeatedly punished its own members who have transgressed. The labor side have shown their good faith by refusing aid to an offending union and thus compelling acquiescence.

Some idea of the magnitude of the problem presented in the proposition of compulsory arbitration may be obtained by a consideration of the work performed by the New York Building Trades Arbitration Board.

During the year ending November 30th, 1906, 433 complaints were filed with the Secretary of the General Arbitration Board. Of these complaints, 133 were adjusted by the Secretary, and 247 received the consideration of the Executive Committee. The Executive Committee, composed of six employers and six employees, disposed of these 247 cases by holding six meetings per month, the meetings averaging three and one-half hours'

duration—a total of 240 hours in disposing of 247 cases. During this time four cases were referred to Special Arbitration Boards. In hearing these cases, the Special Boards averaged six meetings of four hours' duration each, in taking testimony, and the record of the cases averaged from 50 to 600 folios. The protection of the Arbitration Plan was removed from 52 jobs as a result of violations of the provisions of the Arbitration Plan or trade agreements on the part of owners or contractors not members of the Building Trades Employers' Association. Strikes, however, were called in very few of these cases, a satisfactory adjustment of the question in dispute being arrived at immediately upon the announcement of the action of the Executive Committee.

Compulsory arbitration in the business of erecting and construction of buildings must of necessity result in a uniform rate of wages for every competitive district. The competitive districts in the building industry are limited, for the reason that buildings cannot be transported from place to place, but in manufacturing industries the competitive district is world-wide and compulsory arbitration on State lines could not be successful. Arbitration of disputes affecting wages and hours of labor and affecting cost of production under state control could not be successful in ninety per cent of the manufactures of the country.

With Government regulation of rates and control of transportation, and the continued tendency on the part of the National Government to investigate, inspect and regulate private enterprise, any attempt to regulate conditions of employment for labor by boards of arbitration, with power to enforce decisions or awards, would spell disaster to industry and the risk of loss to America of the markets of the world. Furthermore, it is a grave

question whether there would be any legal way of binding trade unions to comply with the compulsory arbitration law and whether organized labor would not consider it a form of bondage against which the working man would rebel.

Therefore, during the present prosperous condition of the country and while each industry is solving the labor problem in its own way, either conclusively or tentatively, I feel that voluntary arbitration of labor disputes based upon the joint agreement, both sides depositing a cash forfeit as a guarantee of good faith, is the extreme limit to which we can go with safety to industry and the liberty of the individual.

### ROUND TABLE MEETINGS.

The Round Table Meeting on Higher Commercial Education was held in the Rhode Island Historical Society Building, at 3 p. m., with Joseph French Johnson as chairman. The chairman announced that after correspondence with various members of the Association he had distributed the following memorandum as a basis for discussion:

JOSEPH FRENCH JOHNSON: It is proposed that the following two topics should be considered:

(1) Can and should education for business be placed upon a professional basis?

(2) The relative value of theoretical and practical work.

It is suggested that there should be at the outset some agreement as to the meaning of the words theoretical, practical and professional. Accordingly I submit the following attempts at definition:

Theoretical work. By this is meant the explanations of phenomena rather than the acquisition of information or study of facts. In Political Economy theoretical work is concerned with the theories of value, prices, wages, profits, etc., it being assumed that the student has an adequate knowledge of the facts to be explained.

Practical work. By this I understand the study of facts and operations of business organisms. For example, theoretical work in banking seeks to make clear the reasons why the rate of discounts fluctuates, why loans and deposits increase in good times; why panics cause high rates of interest and low prices; why excessive bank reserves lead to the exportation of gold, etc. The end of



practical work in banking is to make the student familiar with the actual operations of a bank, with the different duties of the bank employees, with the arithmetic of foreign exchange, with bank book-keeping, with the laws governing the administration of banking institutions, etc.

Everyone will doubtless admit that there should be a combination of theoretical and practical work, but on which is the greater emphasis to be put, and to which ought the greater amount of time to be given? Which will be likely to prove the more important or valuable to the student in later life?

Professional. A profession I understand to be a calling which cannot be successfully undertaken by a young man unless he has first completed a course of study intended to give him a lot of special or technical information not possessed by the average man, and not to be easily acquired by experience. Education for law, medicine, dentistry, veterinary surgery, engineering, is, for example, on a professional basis, for schools exist for the sole purpose of preparing men for these callings, and it is generally admitted that school training is necessary to their successful pursuit. I know of only one group of business men who are seeking to place their calling on a professional basis, namely, the public accountants. In their case the incentive has come from the recent enactment of state laws providing that official certificates of proficiency shall be given to men who successfully pass certain examinations on accounts and commercial law. The question arises, is it possible for schools to prepare men for the profession of accountancy to the same extent that law schools prepare them for the practice of law? If so, what should be the scope of the instruction?

Again, can or should schools prepare young men for the calling of the banker? No school may now be in

existence capable of supplying all the necessary instruction, but might not such a school be created, and would it be worth while?

The Chairman then invited questions and discussion, and for half an hour there was an interesting but entirely informal exchange of views and opinions. Some of the speakers insisted on the importance of preserving the culture element in commercial education, while others seemed more impressed with the difficulty of getting any educational value out of some of the subjects which have a place in our schools of commerce. Do not our larger universities already offer practically all that is worth while or that is possible in the field of commercial education? What should the curriculum of a school of commerce contain that is not already found among the electives of many of our universities? The discussion of these questions led Mr. Cleveland to present a tentative outline of a curriculum for a college course designed to fit young men for business. Mr. Cleveland's scheme and his remarks furnished the topic for the greater part of the succeeding discussion. Among those who spoke were F. W. Taussig, Harvey S. Chase, H. S. Person, John Cummings, J. W. Crook, E. Wambaugh, Henry D. Sharpe, and Charles W. Mixter. The remarks of Mr. Cleveland and others follow:

F. A. CLEVELAND: Before attempting to state a conclusion as to whether the university should undertake the demand for a professional school of accountancy, I undertook tentatively to arrange a curriculum. As a result of such inquiry the conclusion reached is that a distinct department or school may be organized which would have a dignity and educational value equal to that of any professional or technical school or department at present

recognized. To give concreteness to discussion, therefore, I present the tentative curriculum thus formulated:

LIST OF COURSES TO BE OFFERED	Num- ber Of- fered	REQUIRED COURSES					
		Ac- count- ancy	In- sur- ance	Com- merce	Trans- porta- tion	Fi- nan- ce	Public Busi- ness
I. Professional Courses...	34	18	10	6	12	10	8
II. Scientific Courses.....	38	10	10	16	14	13	16
III. History .....	5	1	4	4	2	2	4
IV. Language .....	8		2	4	2	4	2
V. Mathematics .....	4	1	4			1	
VI. Logic .....	1						
Total .....	90	30	30	30	30	30	30

Entrance requirements to be the same as for Freshman Class in other regular departments of the University. In case the other Professional and Technical Schools of an institution require the bachelors degree for entrance, this department should also be put on the same plane. Forty semester courses of three hours per week necessary to graduation—thirty courses being required, and ten courses being elective. On graduation the degree of Bachelor of Science in Administration (B.S.A.) Bachelor of Science in Accountancy (B.S.Ac.) or some similar title to be granted. Should the school or department be put on a post graduate basis, on successful completion of two years' work, a degree of Master of Administrative Science (M.A.S.) or Master of Public Accountancy (M.P.A.) might be conferred; or on completion of a four year course the degree of Doctor of Administrative Science (D.A.S.) or Doctor of Public Accountancy (D.P.A.).

Each of the established professions has grown up in response to a demand for a specialized form of advisory service. The profession of public accountancy—the new profession which has arisen in response to the demand for competent advisers on matters of financial integrity

and industrial control—requires a broad scientific and professional training. The many men looking toward administration as a career are also seeking an educational equipment for this career. Several of the Universities have established departments of instruction grouped around economics and political administration, but so far none has had distinctly in mind the demand which is made the present subject of conference—the demand for specialization which would put the science of administration on a footing of equality with botany, zoology, physics, or chemistry—the demand which would put the profession of public accountancy on an educational equality and dignity with law, medicine, and engineering.

The objections urged against the institution of such a department or school in the University may be resolved into two general propositions: (1) That this would mean high specialization from the beginning of the freshman year for those who are about to enter on administration or professional work; and (2) that in a University a department which teaches economics should aim primarily to give instruction which would lead to good citizenship rather than to money making or private welfare. Both of these are reasons for eliminating all professional specialization from the college course, and therefore both objections would be met by placing the school of administrative science and accountancy on the same basis as are those schools already established.

But let us critically examine the arguments of those who advocate the old form of stereotyped classical course which is adverted to as desirable because it furnishes a "liberal education". These persons assume to oppose what they term "early specialization". In arguing thus, however, the advocate of the "classical school" forget that from every point of view the old time "classical"

course is the most highly specialized course in the curriculum. It was not till science knocked at the doors of the academy and was admitted that the universal college department offered a truly liberal course of instruction—one that was equally well adapted to the educational uses and cultural ends of all men who would devote themselves to intellectual work.

We turn now to citizenship. What is a prerequisite to good citizenship? Should the schools direct the energies and attention of students to baseless theories and to the fabrications of dreamers or should the future good citizen come to know institutions as they exist and to have an intelligent interest in their affairs? The "man of learning" has had his interest stimulated in ideas and concepts that are so far removed from institutional life, that he fairly abhors the name of government. What is the result? (1) Corporate misrule and a continued recurrence of institutional infidelity which has given cause to man to doubt the integrity of his fellows. This is the result of the false training of our schools and colleges. There is no department that would contribute so much to public honesty and private honor as a school of administrative science and accountancy—a school which would not only train men in the science of institutional organization and management, but also in the methods of intelligent and effective control.

HENRY D. SHARPE: It is an error to try to classify accounting, either the present or the future, as a liberal profession, for you do not help either accounting or the liberal professions which are and should be in a class by themselves. Business men demand of accountants,

First. A general education, depending upon the class of accounting which the individual is to serve. In the

more ordinary classes of accounting of course a High School training would serve, but in the higher classes, both of the present and the future, the young man should have a bachelor's degree; the more general and broad his education the better.

Second. A specialized training in the principles and various elaborations of accounting practices, following the attaining of a bachelor's degree. The ambitious business man of to-day, and probably more in the years to come, will manage his business through the corporation form. As assistants to administer his business he desires a corp of specialists, say a designing engineer, a man to manage the working force, a man skilled in selling to manage the distribution of his goods, etc., and lastly he does and will require a man skilled in accounting. Accounting is as important a part of the business in its way as the work of any other specialist. As a preparation for this work the shorter the course can consistently be made the better for the young man, and later for the business into which he is to go. All accounting work must conform to the case to which it is to be applied. One can learn at a school the best principles and a variety of practices, but he can never learn all practices or, what is better, get the experience of putting training into effect.

In conclusion, I feel that manufacturers of to-day will welcome a class of good accountants if the schools will produce them, but good management of business, after all, is only the application of common sense and experience. We cannot map out any lengthy course which is going to create business men.

CHARLES W. MIXTER: My objection to Prof. Cleveland's scheme is entirely grounded on the fact that it is put forward as an undergraduate course leading to a

baccalaureate degree. Our first business in colleges, which must be performed anyway whatever else we do or leave undone, is to educate for citizenship and for life. Such a highly specialized course of vocational studies for undergraduates as has been just now recommended to us, is, I submit, an educational monstrosity. I might accept it heartily, with a few modifications, as a post-graduate plan of study; but as a course for undergraduates, I feel constrained to protest against it. I do not believe that business itself can be taught in schools; but certainly advanced instruction in accounting and other commercial subjects, in their proper place, is a good thing.

It is asked, what shall be done for those students who have not the time, money, or inclination to take a regular college course before taking a higher specialized course in commerce? In reply, we should continue to do what we are doing now, for them and others like them. Let them go from the high school or academy to the vocational school, omitting the college course altogether. It was a mistake for the legislatures ever to have given to the technical schools the right to grant the degree of Bachelor of Science. Their degrees should have been Civil Engineer, Mechanical Engineer, and the like. Let the improved higher school of commerce, taking the place of the ordinary so-called business college, grant some similar degree; but not the degree of Bachelor of Science—and let it not be called a college course.

Something said by one of the speakers about graduates of Higher Commercial Schools connected with colleges getting advanced pay immediately upon graduation because of their special training, reminds me of a danger to economics itself arising from the establishment of such schools. Economics as taught in institutions of learning in the past has always taken the social point of view; it



has been *political* economy, a branch of statesmanship, a training for citizenship. There is another thing somewhat similar to it in form, but wholly different in spirit, which Aristotle called—as translated by Jowett—"the art of money making". If by reason of these new practical tendencies in education our collegiate economic teaching becomes in time imbued through and through with the spirit of the "art of money making"—if chrematistics are taught in place of economics—it will have been an unhappy day when higher commercial education was first thought of.

We need to-day to teach economics for its higher purpose as never before. We need to teach all of the liberal studies along with it to give men broad views of themselves and society, and to keep them from being grafters. An educational system wholly given over to technical studies and the commercial branches would make a nation of barbarians. Too many of our men in leading positions of responsibility are already semi-barbarians; they are not educated.

To conclude: as a compromise between the ideals of education and the pressure from the outside for "practical" instruction, I suggest that the chief subjects taught in the so-called business colleges be incorporated in a four years' course in the regular colleges. That will not dilute a real college training very much and will induce many to go to college who otherwise would not go at all. Accounting (which is much more nowadays than mere book-keeping) should be taught generally to a greater or less extent in all our schools. A widely diffused knowledge of accounts will promote thrift and constitute, as Professor Cleveland truly maintains, one of the chief forces making for righteousness, both in public and private business.

JAMES W. CROOK: The question of commercial training and college training has importance to the practical educator from several standpoints. In the first place, one trained according to the traditional conceptions of a college course finds it difficult to admit that courses dealing with the practical activities of business life can be introduced which shall have anything like the same broad training power as the so-called humanities. I hope, however, that those who believe that such courses can be given will not tire in the work of propaganda. In the second place, the popularization of education has brought an increasing number of men into the colleges who expect ultimately to enter business life. Hence there is a strong demand for courses which shall give some definite training in the practical activities of business life. I have felt the pressure at Amherst and I have come to believe that there is a field for college work that should engage the serious attention of educators. From this standpoint I value Mr. Cleveland's plan as suggestive.

On the other hand there is a great body of young men who are all in the earlier stages of business, such as bank clerks, who have never been to college, and who are in serious need of a broader outlook upon life than their particular occupation affords them. I am of opinion that the colleges should earnestly endeavor to bring to these classes opportunities for study and discussions which shall convey some cultural and broadening effects.

The Round Table Meeting on Transportation was held in Rockefeller Hall, at 3 p. m., with Frank Haigh Dixon, Dartmouth College, as Chairman. The subject was the Administration of the New Interstate Commerce Act. The discussion was opened by William Z. Ripley, Harvard University, who presented the problems still awaiting solution under the four heads of the long and short haul clause, pooling, pressure for new capital in the form of short term notes, convertible bonds and the like, and anti-stock-watering laws that should prevent inflation. The discussion, which was quite informal, lasted nearly two hours and was generally participated in. Among those who took part, in addition to Mr. Ripley and the Chairman, were M. H. Robinson of the University of Illinois, M. O. Lorenz of the University of Wisconsin, and Royal Meeker of Princeton University.

The Round Table Meeting on "Money and Banking" was held in Maxey Hall, December 27th, 1906, at 3 p. m., Mr. Davis R. Dewey presiding. The Chairman made a few introductory remarks explaining the nature of the meeting, and then introduced Mr. Maurice L. Muhleman of New York, who opened the discussion on the subject of "The Currency Reform Plans before Congress". Mr. Muhleman was followed by Mr. Henry W. Peabody of Boston, and Mr. William C. Cornwell of New York. The following persons also participated in the discussion: Don C. Barrett, Davis R. Dewey, Henry Farquhar, Henry B. Gardner, Jacob H. Hollander, J. W. Jenks and E. W. Kemmerer.

MAURICE L. MUHLEMAN: The present agitation for currency reform is due to the recurrence in acute form of the manifestation of the effect of the inelasticity of volume of our currency. Abnormal and erratic interest rates, menacing all business interests, are traceable directly to this condition in our money supply, showing conclusively that the amendment of our bank-note laws is imperatively necessary.

In New York City the rate for "call money" (*i. e.*, loans repayable on demand, secured by deposits of stocks and bonds as collateral) has in recent years been as low as  $\frac{1}{2}$  of 1 % and as high as 186 %; in the past decade the minimum rate has only once been as high as 2%, and the maximum as low as 6%. The rate for similarly secured time loans has fluctuated between  $1\frac{1}{2}$  % and 10 %; that for ordinary commercial paper between  $2\frac{1}{2}$  % and 10 %.

At interior points the money rates show no such extremes, but are measurably affected when the extreme rates prevail in the chief center; and rates are continually higher than the normal rates there, the excess increasing

with the distance from New York. Thus in the middle west 6 % is regarded as a reasonable rate; in Denver 12 % money is not deemed exorbitant; while in sections remote from banking centers 15 % is not an unusual rate.

The very low rates in New York occur when, owing to slackening of demand in the interior, banks there send the surplus funds to banks in the center, practically from January to June. The resulting congestion stimulates speculation and expansion of "call" loans. When, during the other half of the year, the crops are to be gathered and moved, interior demands increase, and a return of funds is necessary. Then New York banks must "call" loans; rates rise, collateral is frequently sacrificed and we have almost annually an acute crisis.

The evil is not a new one; we have had it with us, more or less, for the greater part of a century. The less developed sections have periodically demanded a larger volume of money, upon the assumption that the inequality in interest rates has been due to an insufficient supply. But the great increase—from \$21.41 per capita to \$32.32 per capita—from 1896 to 1906, has not served to solve our problem; nor has the permission to establish small national banks (Act of 1900) improved conditions as much as was expected. A credit-note system alone can furnish a rational solution.

Contrast ours with other systems: the Canadian, operating under almost identical natural conditions, where such fluctuations never occur and rates in the far west are only slightly higher than in Montreal; the French, under which a 3 % rate has been steadily maintained for a series of years; the German, where the present 7 % rate is regarded as dangerous, and indirectly due to the conditions here.

These countries have, however, credit-note systems

and efficient regulating mechanisms, both of which we lack; and we appear also to lack the sagacity to provide ourselves with these. We even ignore our own experience; for our Bank of the United States was an efficient regulating device, as unprejudiced examination of its operations will readily demonstrate.

The large number of individual banking concerns here (6,200 national and 15,000 others) render the adoption of the Canadian system *in toto* impracticable; but the credit-note feature serves us as an excellent example. Moreover the very fact that we have so many independent banks makes central regulation necessary; direct regulation by the government cannot be as efficient as that of a central bank.

Hence the urgent recommendation for such an institution, to be owned by, and to deal with, the banks and the government exclusively, under control of the latter; to issue currency, rediscount for banks, hold government funds, etc. This has not as yet found favor with Congress.

Objections to the central bank system are not founded in reason; sentiment against it has been artificially created through lack of information. The destruction of the Bank of the United States by the Jackson regime, instead of remedying the supposed defects in the system, was criminal, and was logically followed by disaster. The people in 1840 favored its re-establishment and only the death of Harrison and the apostacy of Tyler prevented that consummation. Thereafter the sub-treasury system was adopted and public opinion was trained to believe in the Jackson bogie.

Education, based upon the example of the Bank of the United States and other efficient systems, will remove the sentimental objection; and if the functions of the pro-

posed bank are limited, as indicated, the further objection that the business of individual banks would be interfered with, is also obviated. Conditions are rapidly becoming so intolerable that central regulation is imperative; if the bank plan is not adopted, direct government regulation will be.

Our present bank currency lacks the essentials of such an issue; it will not adapt itself in volume to business needs, supplementing the metallic and other fixed money supply when required. Based as it is upon government bonds it is a speculative medium, the volume depending absolutely upon the measure of profit in dealing in bonds; the increase is frequently largest when demands are lowest; hence it brings about inflation. The increase of over 300 millions of this currency since 1900 has been substantially a continuous one; no contraction took place during the slack business seasons. Abnormally cheap money followed; speculative expansion, as usual, grew fully up to the increased money supply. This now constitutes a serious menace.

Moreover, unless the bonded debt is increased, the further issue of bond-secured notes cannot be provided for; the growth of our Treasury surplus calls for reduction of debt. As the supply of bonds diminishes the price will rise, wiping out the profit on note-issuing; injurious contraction will follow. The banks hold 600 millions (out of 925 millions) of the public debt acquired by them under the law, almost compulsorily; these should not be depreciated by new legislation.

Hence the plan, recommended by the New York Chamber of Commerce, the American Bankers' Association, and the Banking Committee of the House of Representatives, now pending in Congress, proposes to eliminate gradually the bond-security requirement. This plan is:



1. National banks having been in business at least one year, and having a surplus fund equal to at least 20 % of their capital, may issue notes on their credit to the extent of 40 % of their bond-secured notes, not to exceed 25 % of their capital, subject to a 3 % tax. The proportion to be increased if the ratio of volume of public debt, compared with the aggregate capital of the banks, diminishes. In addition they may issue similar notes to be taxed at 5 % to the extent of  $12\frac{1}{2}$  % of their capital, the total of bond-secured and credit notes not to exceed the total capital. (The ratio of bond-secured notes is now  $62\frac{1}{2}$  % of capital, hence credit-notes are to be limited to  $37\frac{1}{2}$  % thereof.)

2. Banks shall hold reserves against the credit-note issues the same as now against deposits: central reserve banks 25 % all in cash; other reserve banks 25 %, half of which may be held in central reserve banks; country banks 15 %, of which  $\frac{3}{5}$  may be held in reserve banks. Thus funds are provided for current redemption of notes; and the Comptroller of the Currency is to designate numerous redemption points and establish regulations for prompt redemptions.

3. The taxes are to be held in the Treasury as a guaranty fund to redeem notes of failing banks, such payments to be reimbursed from the assets of such banks; the notes not to have priority, however. To establish the fund at once each bank is to deposit gold equal to 5 % of the amount of notes issued, to be repaid when its taxes equal that amount.

4. Notes are to be receivable for all purposes the same as the bond-secured notes; their form and denomination to be determined by the Comptroller of the Currency; the expense of issue and redemption to be borne by the guaranty fund.

5. Notes may be retired, (to save the tax,) by the deposit of lawful money in the Treasury without limit; and the existing limit of \$3,000,000 monthly upon the retirement of bond-secured notes is not to apply to the reduction of existing circulation to the  $62\frac{1}{2}\%$  limit.

Another bill now pending provides that government moneys in excess of a reasonable working balance shall be deposited in national banks.

The House Committee refused to recommend the repeal of the \$3,000,000 limit to reducing circulation referred to above, probably fearing undue contraction. It also changed the tax rate; the Bankers' Association recommended  $2\frac{1}{2}\%$  on the first class of notes; the Chamber of Commerce favored a tax graduated from 2 % to 5 % on all credit-notes, according to amount issued; the Secretary of the Treasury favored a tax of 5 % on all credit-notes; the Comptroller of the Currency also prefers a graduated tax.

Respecting the security of the notes it is urged that a tax of  $\frac{1}{4}$  of 1 % on the issue of national bank notes during the 43 years of their use, would have redeemed all the notes of all banks which have failed; hence a 5 % fund, twenty times as large, should be ample.

Regulation of volume, an essential, is to come through the tax and frequent redemptions. Banks competing in the business of keeping their notes in circulation, from which they profit, will promptly send notes of other banks to the nearest center for redemption, during the seasons of slack demands; when this frequent redemption reduces the profit to a point lower than the tax rate, notes will be retired.

The issue of the first class of credit notes (taxed 3 %) would be profitable so long as money rates range approximately at  $4\frac{1}{2}\%$ ; central reserve banks, which must hold

a larger relative cash reserve, require a slightly higher income. The second class (taxed 5 %) would be profitable only when money is about 7%. Since interior rates are usually above  $4\frac{1}{2}$  % the first class of notes would probably have a considerable lease of life; the others would probably appear only during the crop-moving periods.

The bill does not provide for a material contraction of the bond-secured currency; if this issue is excessive, the measure would favor further expansion. Examination of data bearing upon the question indicates a need for restraint. Comparisons are made with 1892, the year of the culmination of our last expansion period. (See table at end of article.)

The proportion of cash held by all national banks in their required reserves fell from 80 % to 63 %; interior banks (excluding those of the three central reserve cities) show a decline from 68 % to 49 %. In other words, interior banks have very largely increased the proportion of reserves loaned to banks in the centers. Their general business, measured by deposits, using 1892 as 100, increased to 239; cash at home to only 182; the excess of funds in other banks over cash at home increased to 363; and the note issues to 328.

The movement of funds to centers is encouraged by the payment of interest by the banks there on such so-called "deposits"; even the fact that it brings about abnormally low and unprofitable rates during part of each year does not discourage the practice; furthermore, the absence of funds from home enables the maintenance of higher local rates by interior banks. In September, 1906, interior banks held in cash 344 millions; they reported due from other banks 932 millions, or more than six times the estimated need of money to move crops (150

millions). A call upon New York for a return of part of its holdings caused a crisis.

Obviously, interior banks should keep a larger portion of their reserves at home; but the maintenance of an excessive note issue prevents this. Instead of retiring circulation when demands diminish and foregoing the small profit thereon, the surplus notes are sent to the centers; the banks there forward them to the Treasury for so-called redemption in reserve money; the Treasury when reimbursed by the issuing bank returns the notes to it, and they are again issued, again reach the centers, and so on, an endless chain of non-redemption (so long as it is profitable), which expands inter-bank liabilities and reduces reserve cash of interior banks. If banks in the centers would cease paying interest on these funds, the practice would be discontinued.

Interior banks formerly used 21 % more than their deposits in loans; they now use only 99 % of their deposits for this purpose; indicating that the notes are not necessary to supplement deposits to accommodate the public. Applying the measure employed above, deposits increased to 239, loans, including overdrafts, only to 196; moreover, "collateral loans," which embrace the speculative class, rose to 268, so that other loans rose only to 172. Interior banks loan largely to New York stock operators directly when call loans are high; and the home demand probably suffers by reason thereof. Furthermore, interior banks now show large investments in stocks and bonds other than those required for circulation and public deposits; the increase since 1892 has been as 100 is to 446. These facts indicate diminished public service by these institutions.

It is true that interior demands are in large part satisfiable only with actual currency, not credits. National

banks in September, 1906, could under the law have issued 300 millions of notes; but since it required cash to buy bonds to provide notes, the power of issue was useless. Thus the existing system failed when the needs were greatest. The credit-note plan enables banks to convert their credit into currency as needed.

The expansion of liabilities thus directly due in large part to the failure to contract note-issues at seasons of lessening demand, has caused a decline in the ratio of capital support of all national banks from 19.6 % to 10.4 %. The ratio of gold reserves, the means of ultimate liquidation, has fallen from 13.8 % to 8 % as compared with deposit and note liabilities of the banks and the Treasury. The Bank of France holds 65 % of its note obligations in gold; our ratio is about 29.2 %. Measuring our supply of means to handle the increased business, including bank deposits as means, there appears to be no deficiency.

Our heedless expansion has given us the fictitious renown of enormous increase in "banking power," compared with the rest of the world, from 1890 to 1906. But our total gold stock upon which this rests fell from 13.3 % to under 9 %; the rest of the world has nearly 22 %, which is the ratio for Europe, where the decline was only from 25 % since 1890. This weakening of our position conclusively disposes of the belief that our chief money center will soon be the dominant one in international affairs. Stronger by over 140 % in gold, and even more so in the superiority of their monetary mechanisms, our competitors have no occasion to fear us.

We should improve the relation between our gold stock and liabilities; expansion will not merely diminish the ratio, but cause a loss of gold. Additional bank-note issues should be carefully guarded; the bond-secured

notes must be subject to contraction as well as the credit notes, for they have manifestly helped materially to cause the unwholesome expansion. Instead of permitting the proportion of these notes to remain at  $62\frac{1}{2}\%$ , the volume should be reduced to 50 % of the capital; 25 % of the capital to be issued in low-taxed credit notes as proposed; the remaining one-fourth of the capital in more highly-taxed credit notes. The \$3,000,000 limitation against retirement of notes should be modified so as to apply only during the portion of the year when business demands are slack; the demand is determined by seasons; rationally, the regulation of volume should be determined in like manner.

It would appear wise to adopt a graduated tax for the last-named class of notes, the basis therefor to be not the amount of issue but the period of use. It is desirable to permit issues when needed, with reasonable restriction; but the chief aim is to induce retirement when the needs have passed. Hence the tax should increase with the time notes are kept out, again in harmony with the seasonal demand.

These provisions for regulation are, however, far inferior to those which would naturally follow the creation of a central bank; with such a regulator the tax upon notes, an artificial device at best, could be minimized, and probably eliminated entirely after the guaranty fund has been provided for. But until an agreement can be reached for comprehensive reform, we needs must temporarily employ devices which do not appear the best. This merely emphasizes the need for a central bank; and moreover, there can be no concentration of our great financial power, now scattered and partially impotent, until we have such a mechanism.

STATISTICS. (Amounts in Millions of Dollars.)  
I. THE SITUATION OF THE NATIONAL BANKS—SEPTEMBER, 1892 AND 1906.  
(Index based on 100 for 1892.)

Total Resources	Loans		Other Securities	Individual Deposits	Reserve Required	Cash Held	Due From Banks	Excess Over Cash	Circulation	Capital	Ratio, per cent.	
	All	Collateral									Capital to Reserves	Loans to Deposits
<i>All Banks.</i>												
1892....	2,171	640	1,531	159	1,765	408	327	499	82	143	687	80.1
1906....	4,331	1,646	2,685	682	4,200	993	626	1,074	448	518	835	19.6
<i>Index...</i>	199	257	175	429	238	243	191	238	546	362	121	10.4
												103
<i>Interior Banks. (Excluding those in the three central reserve cities.)</i>												
1892....	1,689	460	1,283	117	1,391	276	188	350	162	136	603	68.1
1906....	3,314	1,089	2,225	522	3,333	700	344	932	588	448	689	22.5
<i>Index...</i>	196	268	172	446	239	254	183	266	363	329	114	11.5
												99
<i>New York City Banks.</i>												
1892....	344	183	161	30	277	98	103	108	6	50	105.1	8.3
1906....	702	442	260	136	659	207	199	599	310	46	106	124
<i>Index...</i>	203	240	161	453	238	211	193	241	287	766	212	7.2
												106

NOTE.—Loans include overdrafts. Securities exclude bonds to secure circulation and public deposits.

II. CREDIT LIABILITIES AND GOLD, 1890 AND 1906.

U. S. Notes and Treasury Bank Notes	Ratio per cent.	Commercial Banks		Deposits	Ratio	Gold	Reserve	Bank Power	U. S. Gold	Total Stock	Ratio		Rest of World	
		Deposits	Gold								Bank Power	U. S. Gold	Bank Power	U. S. Gold
1890..	533	190	35.6	2,511	230	9.1	3,044	420	13.8	5,150	696	13.3	10,850	3,254
1906..	903	264	29.2	8,916	525	5.1	9,819	789	8.0	16,500	1,476	8.9	22,000	4,824

<sup>1</sup> Partly estimated.

III. THE BUSINESS EXPANSION, 1892-1906.

Clearing House Exchanges		Gross Railway Earnings	Postal Revenue	Export Mds.	Bank Deposits		Money in Commercial Circulation	Deposits	Gold		Per cent in Banks	Share Sales N. Y.
Outside New York	All New York				Commercial	Savings			In Circulation	In Banks		
1892...	25,300	36,700	62,000	1,171	71	1,030	1,601	4,507	550	230	42	86
1906...	54,100	104,700	158,800	2,320	161	1,244	3,300	2,744	1,166	525	44	288
<i>Index...</i>	214	289	256	198	227	169	306	188	215	229	258	335

<sup>2</sup> Calendar years; other items fiscal years ended June 30.



## WESTERN CIVILIZATION AND THE BIRTH-RATE.

EDWARD A. ROSS.

A century ago Robert Malthus showed that the spontaneous fecundity of man is such that, with a purely natural mortality, population doubles in twenty-five years, whereas the subsistence obtainable from a given area cannot be indefinitely increased. He showed furthermore that, since the reproductive instincts are in no wise correlated with man's power to increase the food-supply, population *tends* to increase even when additional numbers can no longer be supported. Under such circumstances the equilibration of population with resources is brought about by war, misery, plague, famine, and vice, which raise the death-rate until it equals the natural birth-rate. Although this cruel mode of equilibration has prevailed through human history, a milder mode is possible if, by taking thought, men will restrict reproduction until the births no longer exceed the deaths. This, however, presupposes more foresight and self-control than can be looked for in the average man, so Malthus saw no prospect of the abolition of poverty, cherished little hope for the laboring masses, and painted the future of society with a somberness that gave economics its nickname of "the dismal science".

It is nothing to the discredit of Malthus's doctrines that he did not foresee certain social transformations—democracy, the emancipation of women, the replacement of custom imitation by fashion imitation—which have generalized his "preventive check" until the birth-rate

of entire populations betrays the domination of the instincts by the will. Although the population of Europe leaped from 187 millions to 400 millions during the nineteenth century, the last thirty years show a steady decline in the birth-rate.

TABLE I  
BIRTHS PER THOUSAND OF POPULATION

	1876-80	1896-1900	Fall in 20 Years	Fall to 1902-03
Norway .....	31.5	30.4	1.1	2.9
Austria .....	38.8	37.1	1.7	2.2
Denmark .....	32.1	30.2*	1.9	2.8
Switzerland .....	31.3	28.7*	2.6	3.6
Ireland .....	25.8	23.2	2.6	2.7
Italy .....	36.8	34.0	2.8	3.5
Belgium .....	31.9	28.8	3.1	2.2
France .....	25.4	22.4	3.2	3.8
Germany .....	39.2	36.0	3.2	5.3
Sweden .....	30.2	26.9	3.3	3.8
Holland .....	36.4	32.5*	3.9	4.8
Hungary .....	44.1	39.7	4.4	5.3
Scotland .....	34.7	30.2	4.5	6.1
England and Wales .....	35.4	29.3*	6.1	6.8

\* 1891-1900.

That the tendency is not due to a darkening of the economic horizon appears from the similar behavior of the prosperous Australasian peoples.

TABLE II  
AUSTRALASIAN BIRTH-RATES

	New South Wales	Victoria	New Zealand
1871-75.....	39.0	35.6	40.0
1876-80.....	38.5	31.4	41.3
1881-85.....	37.6	30.7	36.5
1886-90.....	36.3	32.7	31.2
1891-95.....	32.9	30.9	27.6
1896-1900.....	27.9	26.2	25.7

Few American states register births, but the proportion of children revealed by successive censuses discloses in what direction we are moving.

TABLE III  
NUMBER OF CHILDREN UNDER FIVE YEARS TO 1,000 WOMEN OF  
CHILD-BEARING AGE

1850.....	626	1880.....	559
1860.....	634	1890.....	485
1870.....	572	1900.....	479

The fecundity of the foreign-born element, stronger now in our population than in 1850, obscures somewhat the tendencies prevailing among native Americans. What these are appears from the following table:

TABLE IV  
NUMBER OF OFFSPRING BORN IN FAMILIES OF COLLEGE GRADUATES

	Middlebury College	Wesleyan University	New York University*
1805-09.....	5.6	...	...
1810-19.....	4.8	...	...
1820-29.....	4.1	...	...
1830-39.....	3.9	4.5	4.0
1840-49.....	3.4	3.3	3.2
1850-59.....	2.9	2.2	2.9
1860-69.....	2.8	2.6	2.5
1870-74.....	2.3	...	...
1875-79.....	1.8	...	...

\* These figures for New York University are for the decades 1835-44, 1845-54, etc.

Let it not be imagined that the reduction in fecundity has been at the expense of the natural increase of population. The death-rate has fallen even more than the birth-rate, so that during the nineties the European peoples grew at the old rate of 1 to  $1\frac{1}{2}$  per cent. per annum. Since, however, the influences lowering the birth-rate are by no means the same as those lessening mortality, it is likely the former will continue to operate after the latter have spent their force. This is why we may look in the near future for a retardation in the numerical growth of the occidental peoples.

A phenomenon so widespread and striking is a challenge to the tyro and the fanatic, and hence all manner of silly, cheap, or partial explanations compete for public credence. Some attribute it to physiological sterility induced by alcoholism, city life, and high pressure, forgetting that the child crop of sober, rural communities is often scantier than that of intemperate mining or industrial towns, and that the falling-off in the birth-rate seems due to smaller size of families rather than to the greater frequency of childless couples. New South Wales, with a lower birth-rate than England, has less than half the proportion of sterile unions. What means it, moreover, that the Australasian population, with its surpassing physique and vitality, shows in recent years an abrupt decline in fecundity?

Some lay the phenomenon to the industrial emancipation of women and the comfortable celibacy of cities, neglecting the statistics which show there is no marked weakening of the inclination to marry. The true cause is one that will make clear why, for example, the native married women of Massachusetts bear only seven-elevenths as many children as women coming from Germany, seven-thirteenths as many as those from Ireland, and half as many as those from French Canada. Others blame the broadening freedom of divorce, unmindful that divorceless Ireland has only four-fifths the birth-rate of easy-divorce Switzerland, that teeming Germany is five times as inclined to break the conjugal bond as Canada, where the size of the family shrank a twentieth during the nineties, and that prolific Japan leads the world with nearly twenty times the divorce-rate of stationary France. Still others blame the postponement of marriage, pointing out that marriage at 24.5 years as with English brides, at 25.5 as among those of Massachusetts, or at 26.5 as

among college-bred women, cuts deeply into the fecund years. But they overlook the fact that the last child in the average family arrives seven and a half years after marriage, so that even the woman who weds at 26.5 years ceases child-bearing with yet many fertile years before her.

In the face of the hobby-riders I maintain that the cause of the shrinkage in fecundity lies in the human will as influenced by certain factors which have their roots deep in the civilization of our times.

One master-trait of contemporary society is democracy. The barriers of caste are down, and less and less is a man's place in society fixed by his origin. The more flourishing peoples grade men according to something that can be acquired—wealth, efficiency, knowledge, character. Wide stairways are opened between the social levels, and men are exhorted to climb if they can. In such case prudence bids each avoid whatever will impede his ascent or imperil his social standing. To the climber children are incumbrances, and so the ambitious dread the handicap of an early marriage and a large family. When, as so often in these days of anti-child-labor laws and protracted schooling, the additional child is a drag on the social advancement of the family, that child is not likely to be born.

With the wiping-out of sharp class lines, inherited standards of living lose their grip. Wants and tastes once confined to the social *élite* spread resistlessly downward and infect the masses. Tidal waves of imitation carry the craving for luxuries, hitherto looked upon as the prerogative of the rich, among millions of people of limited means, and these in their endeavor to gratify their newly awakened wants learn to economize in offspring. The little stranger trenches on raiment, bric-a-brac, up-

holstery, travel, entertainment. Here the decencies, there the comforts, yonder the refinements and vanities of life compete with the possible child and bar it from existence.

Another factor is the emancipation of women. Every child taxes the father's purse, but the mother's body. A reputed inferiority of women, as in the Orient or in eastern Europe, degrades her to a passive instrument of man, subordinates her entirely to wifely functions so that her birth-pangs do not count. The great movement that has burst the fetters on woman's mind, and opened to her so many professional and industrial careers, raises her value and weight in the marriage partnership and causes the heavy physiological and personal cost of excessive maternity to be more considered by husband as well as by wife. When the size of the family is determined from man's view-point alone, the controlling consideration is pecuniary; and hence Malthus drew his pessimistic conclusion that the prosperity of the masses tends constantly to defeat itself by stimulating the growth of numbers until poverty again reigns. But when spouses come to the woman's point of view, the pain-and-worry cost of enlarging the family remains a bar even when the money cost need no longer be considered.

Something, too, must be said of the decay of religious beliefs. Parents who "trust in Providence" and hold, with Luther, that "God makes children and he will provide for them," are rare nowadays. More and more the age chimes in with Matthew Arnold when he says:

A man's children are not really *sent*, any more than the pictures upon his wall, or the horses in his stable are *sent*; and to bring people into the world, when one cannot afford to keep them and oneself decently and not too precariously . . . is . . . by no means an accomplishment of the divine will or a fulfillment of

Nature's simplest laws, but is . . . contrary to reason and the will of God.

Piety, moreover, promoted parentage by reconciling woman to her lot as mother and drudge. The struggle of woman to realize an individuality has obliged her to rebel against her Biblical status and spurn the counsel of submission to the curse of Eve; so that the progress of unbelief is not without a bearing on the decline of the birth-rate.

Powerful as are the motives arrayed against superfecundity, they operate only in so far as they are coupled with foresight and self-control. In the modern world parents may not rid themselves of the unwelcome child, so that it is only by being foreseen and anticipated that the ever-more-acutely-felt burden of that child can limit the size of the family. Every influence, therefore, that enlightens, or enthrones reason over impulse, helps to break the scepter of Ishtar, the cruel goddess that has so unspeakably tormented mankind. In this direction work the universal instruction, cheap press, free libraries, and voluntary associations, that are irradiating the social deeps. Moreover, industrialism, with its enormous pressure and harsh penalties, is compelling the ignorant, the careless, and the animal to *think*; so that, in fact, the principal features of the life of to-day are accomplices in the restriction of fecundity.

Our age glories most that Science and Technique are able to develop resources to meet the demands of a swelling population. Ought we not rather to glory in the fact that the civilization wrought out within the memory of living men is the first that ever really solved on a great scale the problem of painlessly equilibrating population to resources? The civilization of the Orient failed to lift



up woman or bid the lowly aspire, and hence it was never able to deliver man from nature's grim agencies for adjusting numbers to the food-supply—war, famine, misery, plague, and vice. The civilization of the Middle Ages succeeded no better, and the surviving peoples of that type in eastern Europe show a prolificacy that scourges them with misery, hunger-migration, and an appalling infant mortality. Latter-day occidental civilization alone has solved the riddle of the Sphinx, and it has been able to do it because it is *democratic, individualistic, feminist, secular, and enlightened*.

What, now, are the effects of reducing the size of the average family?

One effect is that diffusion of economic well-being which registers itself in a rising plane of comfort, a growth of savings, and a wider diffusion of ownership. Striking, indeed, is the contrast in condition between the prudent French peasantry and the reckless mining or factory towns of central Europe, or the spawning rural communities in Russia and Roumania. Among the west European peoples not only is the mean duration of life rapidly rising, but an increasing proportion of lives is rounded out to the term allotted by the Psalmist. This gain in longevity is partly due to the better support and care of the aged, who no longer need compete for attention with an overlarge brood of wailing infants. Again, a decline in fecundity lessens infant mortality; for often the sole effect of prolificacy is to fill the cemetery with tiny graves. The French Canadians, famed for their quivers of twelve, thirteen, or even twenty, do not show the census-taker larger families than the other Canadians. Among the working classes babies that come close together lack greatly in feeding, care, and medical attention, so that the restricted family may rear the larger number.

When, as in certain teeming districts of Russia, the mother must go to work in the fields, leaving the hungry nursling to suck poultices of chewed bread tied to its hands and its feet, a barbarous birth-rate of 52 per thousand is shadowed by the death within a year of a third of those born. A great city at best is not benign to infancy; yet, in 1902, the death-rate in Moscow for children under one year was more than three times that of Rome, Paris, or Edinburgh. The difference during the first year alone amounted to a full fourth of all born. Consider, moreover, the significance of the fact that Russia, with 49.5 births per thousand, loses 31 per cent. the first year; Bavaria, with 36.8 births, loses 24 per cent.; Norway, with 30 births, loses 9 per cent. These aborted lives add nothing to national or racial strength; they are simply sacrifices of the innocent to the Moloch of immoderate maternity.

After all, however, the master-consequence of a restricted birth-rate, the one result that dwarfs all others, is that with the intelligent adaptation of numbers to prospects ceases population-pressure, the principal cause of war, mass poverty, wolfish competition, and class conflict; for, in the words of Huxley,

so long as unlimited multiplication goes on, no social organization which has ever been devised, or is likely to be devised, no fiddle-faddling with the distribution of wealth, will deliver society from the tendency to be destroyed by the reproduction within itself in its intensest form of that struggle for existence, the limitation of which is the object of society.

Once it seemed as if man's propensity to multiply foredoomed the race to live ever in the presence of vast, immedicable want and woe. However smiling the gardens of Daphne, they had always to slope down into a huge, malodorous quagmire of wretchedness. The wheel of

Ixion, the cup of Tantalus, symbolized humanity striving ever by labor and ingenuity to relieve itself of a painful burden, only to have that burden inexorably rolled back upon it by its own fatal fecundity. The unlooked-for promptness with which, under the influence of democracy and public education, the masses have acquired a sense of responsibility in the matter of family, bids us look for a time when the specter of over-population, with strife, misery, and famine in its ghastly train, will be finally laid, and society will for the first time become master of its destiny.

But there are disquieting effects which must be taken into account.

The sway of the will in a matter hitherto left to blind instinct works a veritable revolution and cannot but breed certain harms of its own. At first the new foresight is used wantonly and destructively. The same individualizing influences that have genially tempered the general fecundity prompt some couples to a selfish evasion of all duties to the race. Salutory is restriction so far as it springs from a wise solicitude for the true welfare of offspring; but when it springs from personal cravings and ambitions, it may go too far. No one can tell where it will stop. The refusal to be encumbered in the pursuit of vanities might, if it became general, cause population to dwindle in the midst of an Eden. The fall of the birth-rate in roomy New South Wales from 37 to 27 in fourteen years is a portent. Shall we live to see the mother of more than three regarded as a public benefactor and placed on the pay-roll of the state? This exaggerated individualism, that avoids marriage or else dodges its natural consequences, forebodes the extinction of the class, the people, or the race that adopts it. The false ideals behind such race-threatening frivolity need

to be combated in the name of real values. Nor may we blink the fact that in order to control the size of the family some have resorted to means fraught with grave and insidious injury to health.

In the matter of reproduction it is not yet possible to substitute intelligence for instinct without creating a mental attitude responsible for numerous one-child and two-child families, where both parents and children miss many of the best lessons of life. The children reared in such stunted families, instead of surpassing in stamina and character, fall below the average. The type to be standardized is not the family of one to three, but the family of four to six. The one-child or two-child ideal growingly in favor with the middle class would, if popularized, hurry us to extinction. In such families prodigious pains are taken to keep breath in defective or sickly children. Instead of being weeded out in infancy by natural process, the weaklings are kept alive by lavish care, and the national vitality is lowered.

Since it is the rising that first feel the individualizing influences, these check their increase while yet the stocks below them breed at the old reckless rate. The outcome is a numerical gain of mediocres over capables, threatening an eventual dearth of ability in the race thus impoverished at the top. This untoward phenomenon is, however, but a passing phase. The lower strata are coming or may be brought within reach of the influences that moderate multiplication. If we speed up the individualizing agencies till the unthinking and brutish have become a mere remnant, the danger will disappear. Furthermore, the closer legal restriction of child labor, by making offspring expensive instead of profitable, may check the free propagation of stocks deficient in capacity or parental altruism.

It needs to be pointed out that the people that practices restriction sooner than its neighbors must resign itself to seeing its more fecund rivals outstrip it in colonizing the waste places. Says the New South Wales Commission on the Decline of the Birth Rate:

Public men . . . have referred hopefully to the day when Australia with her teeming millions will hold a commanding place among the peoples of the world. The patriotic ardor inspired by this hopeful anticipation is, however, destined to be cooled in the contemplation of the fact that, while Russia and Japan, prospective rivals of Australia for supremacy in the western Pacific, are already seeking outlets beyond their own borders for the energies of their ever-growing peoples, it will be forty-six and a half years before Australia, with her three and three quarter millions of inhabitants, and dependent alone on her natural increase (if this even be maintained at its present rate) will have doubled her population; and one hundred and sixty-eight years before her numbers will have reached the present population of Japan.

Nevertheless, the equilibrium may be restored by the overprolific people adopting the standards of the less prolific. Even if births are too few in Australasia, it is noteworthy that Japan is taking measures—*e. g.*, the higher education of girls—against her super-fecundity, and it is certain the masses of Russia will not much longer pullulate in the pit of mediævalism.

Again, it is possible that the fair prospect opened to the masses of a people that restricts increase may be darkened by the pressing-in of hunger-bitten hordes from the man-stifled neighbor lands. More than a million and a quarter Italians, Basques, Germans, and Belgians have been drawn into hollow and prosperous France by the lure of high wages. Coolies from overstocked China reach eagerly for the opportunities that Australians, Cana-

dians, and Americans are wisely holding open for their children. If the low-pressure society slams its doors upon the indraught, it may later have to reckon with an armed invasion from some quarter where cannon food is cheap. Numbers tell. France dreads prolific Germany. Germany trembles before yet more prolific Russia. Europe fears the awakening of the teaming yellow race. In South Africa the whites stand aghast at the rabbit-like increase of the blacks. Until backward mankind has clambered up, or been lifted up, from the animal plane, the sunny spots created by scientific industry coupled with prudent parentage will be menaced by an influx, peaceful or armed, from the crowded areas, and the bristling frontiers between peoples and races will have to remain.

It is, moreover, questionable if the slackening of increase in the white race is not premature. Much of the globe lies under-developed and capable, under the vivifying touch of the cunning hand, of maintaining in comfort many additional millions. For some time yet overflow currents may well stream out from the seats of the white race to occupy and develop the backward lands. If these dry up now, the void will assuredly be filled with the children of the black, brown, and yellow peoples, and the type that has so far achieved the most will contribute less than it might to the blood of the ultimate race that is to fill the globe.

The revolt against senseless parentage is a colossal secular phenomenon of varied aspects, and few of its appraisers are competent to judge more than the one or two aspects that appeal to them. No one who envisages all the aspects of this pregnant thing, who succeeds in seeing it steadily and seeing it whole, will laud or condemn it in unqualified terms. Granted; but the question forces

itself: Is the core of the thing good or bad? Is the dethronement of Ishtar as mistress of social destiny a blessing with incidental harm, or an evil with incidental benefit? So pressed, I would answer: *Restriction is a movement at bottom salutary, and the undoubted evils in its train appear to be minor, or transient, or self-limiting, or curable.* I shall have against me mystics, clerics, *a priori* moralists, sentimentalists, æsthetes, militarists, capitalists, and politicians; but, nevertheless, I take my stand with those who hate famine, war, saber-tooth competition, class antagonism, the degradation of the masses, the wasting of children, the dwarfing of women, and the cheapening of men.



WESTERN CIVILIZATION AND BIRTH-RATE.  
—DISCUSSION.

FRANK A. FETTER: The famous proposition of Malthus concerning population is always fallacious and always confusing in social inquiry, and ought therefore to be laid away finally in the collection of outgrown illusions. The proposition that population tends to increase faster than the means of subsistence is ambiguous nonsense. The word "tendency" has two meanings, varying according to the context. As applied to a force, "tendency" indicates merely the direction in which the force is exerted, no matter in what direction the body moves. Thus gravitation has a tendency to bring down the rising balloon, and wind has a tendency to check the motion of the advancing steamship. In this sense the reproductive power of mankind has a tendency to increase the population. But this tells nothing of the actual movement of population. That is the resultant of many forces tending in various directions. In this sense "tendency" cannot correctly be applied to population as the number of persons. As applied to a thing passively acted upon, the word "tendency" indicates the predominating direction of movement. In this sense "tendency" is properly applied to population, but only when in fact the number is increasing or decreasing. The mischievous confusion of the Malthusian proposition lies in its mingling of these two inconsistent meanings; population with a power of reproduction tending to increase the birth-rate is easily shifted in meaning to population as an arithmetic resultant pushed inevitably over the precipice of misery and starvation.

It is time to do away with this old jugglery of words, and look at the subject in the clearer light of the doctrine

of biologic evolution. Nature has provided a "factor of safety" in the reproductive power of mankind. Impulse and physical capacity are greater than is needed to maintain or slowly to increase the population under favorable economic conditions. This surplus power has insured two results for humanity: first, it saved capable families and tribes from extinction in the vicissitudes of war, pestilence, and famine; secondly, it gave an excess of births in the more capable strains, and thus secured an indispensable condition of progress. Broadly viewed, this factor of safety has been none too large for these tasks. With greater security of life it now is excessive in many individuals, and must to a large extent be sternly repressed, or tempered by education and by selective breeding of the race.

This suggests the main criticism which I should like to make upon the leading paper. That paper dismisses too lightly the thought that the birth-rate is limited, roughly speaking, in proportion to the ability and cultivation of the families. The ignorant, the improvident, the feeble-minded, are contributing far more than their quota to the next generation. Professor Ross recognizes somewhat this danger, but leaves a far too comforting final impression. We ought not to underestimate this danger, or overestimate the likelihood of automatic remedial forces. To Professor Ross the problem seems but a passing one, and "the lower strata are coming or may be brought within reach of the influence of moderate multiplication." He concludes with the soothing assurance that "the undoubted evils in the train of restriction appear to be minor, or transient, or self-limiting, or curable."

This opinion can be indorsed only when the emphasis is placed strongly upon the purposeful action of society, and not upon automatic relief, upon "may be brought,"

and upon "curable," and very little upon "are coming," "transient," and "is limiting." In barbaric times the stronger and swifter conquered and survived; and the early social institutions of polygamy, patriarchal concubinage, war, and the capture of women favored the survival of ability. But to-day superior intellectual and economic power contributes, not to offspring, but to sterilized scholarship, barren selfishness, and social display. It is more true to-day than ever, as the Frenchman said, that all the big families live in little houses and all the little families live in big houses.

In the lower strata of society it is the abler individuals that are reached by the appeal to ambition. Democracy hastens their extinction by enabling them to rise from the prolific ranks where caste has held them, to those circles where success or frivolous enjoyment limits the family burden. The practice of limiting families spreads downward in the same way and at the same rate that the mountains are being washed into the ocean. Before either process is effected, the world will end.

The paper mentions but one recent social change which tends definitely and positively to reduce the families of the unskilled classes, namely, child-labor legislation. Such laws as these incidentally and unintentionally have operated in that way. It is to the extension of such purposeful regulative measures that we must look for a remedy and not to the "economic harmonies." The whole structure of civilization is in a sense artificial, and the whole social process of limiting the physiologically possible birth-rate, is artificial. Its regulation in the future must be by artificial social agencies consciously chosen. Unless effective means are found to check the degeneration of the race, the noontide of humanity's greatness is nigh, if not already passed. Our optimism

must be based, not upon *laissez faire*, but upon the vigorous application of science, humanity, and legislative art to the solution of the problem. Great changes of thought are impending, and these will include the elimination of the unfit, the establishment of qualifications for marriage, the education of parents, and the conscious improvement of the race. Under the touch of the new science of eugenics, many of our most perplexing social problems will disappear, making possible that better democracy which we are just beginning to seek.

WILLIAM B. BAILEY: Emphasis seems to have been placed on the proper point when great weight was given to the growth of the spirit of democracy as affecting the birth-rate. When status instead of contract determined the position of the laborer, there was little incentive to foresight, since social advancement was extremely difficult. One by one the ties which bound men to the soil or to their occupation were cut away, and by the beginning of the nineteenth century labor became mobile. By the application of steam power to transportation and manufacture, the ability of the laborer to change his residence or occupation was increased. But while this growth in freedom brought many rights to the individual, he incurred at the same time certain duties. While he had been freed from the payment of dues to a superior, he had lost all claim to his bounty. His social salvation lay in his own hands.

With this increase in the responsibility of the individual has come an enlargement of the field for ambition. The great prizes in life are open to all, but for their attainment great sacrifice is required. Present enjoyment must be deferred and every energy strained to gain the final goal. Every handicap must be thrown aside in order

to reach the next round of the social ladder. The more ambitious the individual the greater the sacrifice demanded. To a considerable proportion of the population of the western world the presence of a large number of children in the household is considered one of the greatest barriers to social and economic advancement. Therefore, either by deferment of marriage or by restriction of fecundity, the size of the family must be kept within the limits granted by the courtesy of ambition.

In a new country, where agriculture is profitable and land plentiful, the action of this motive is for a time obscured. For the clearing of forests and the planting and harvesting of crops, where hired labor is obtained with difficulty, a numerous family is an economic utility. When the land under cultivation is found insufficient to utilize the laboring force of the growing community, or the sons wish to establish households of their own, they can take and clear adjoining land and gain a position as good as that of their father. Such a population is usually virile, fecund, and prosperous. As the country becomes populated, cities spring up to meet the demands of commerce and manufacture. Many who are not fitted for or attracted to agriculture find ample field for their ambition in urban life. The presence of this vast New World enabled Europe to preserve its customary high birth-rate without accompanying famine and pestilence. Millions of the surplus and more energetic population left for the new lands. At the same time the development of transportation enabled the Old World to obtain its food supplies from the immense stretches of fertile land over-sea, while utilizing much of its natural increase in the development of manufacture. One result of this system has been to render farming unprofitable in many sections of the Old World, and to increase the migration toward the

cities, causing in places an actual depopulation of the rural districts. This is apparent even in the North Atlantic section of this country.

Such a complete change in the economic condition of Europe caused the world to doubt for the time the existence of the laws of Malthus. But they were still on Nature's statute-book, although there was little cause for their enforcement. While we were beginning to wonder why the old repressive measures had lost their force, we saw that man was taking the solution of the problem into his own hands. It seems unlikely that the more highly civilized nations of the western world will ever again allow famine to limit the numbers of the population.

But the members of the different social groups do not reproduce with equal rapidity. There seems to be grave danger that too great a proportion of the increase of the population will come from the lower classes. The size of the family seems to vary inversely with the social ambition. When the individual is keenly alive to the opportunities for advancement, and anxious that the position of his children shall be at least equal to, if not better than, his own, the number of children will not be so great that it will be impossible for him to equip them properly for their life-work. But where a spirit of hopelessness and sullen resignation is widespread, there is but little thought given to the prospects of the next generation; for the children could not easily be worse off than the parents. The need or cupidity of the parents forces the children into the mines or factories at the earliest possible age, regardless of the effect upon the intelligence or health of the coming generation. As a consequence of this short-sighted action on the part of the individual, society has been compelled to abandon its *laissez-faire* policy, and pass certain paternalistic measures. The

result of the sanitary and factory legislation of the past half-century has doubtless tended to reduce the size of the family among the lower classes. There will continue to be thousands who will breed blindly, regardless of the future of their children; but compulsory education and the opportunities which are offered at present for intellectual improvement should make the coming generation realize more fully the duties which they owe to themselves and their children.

We have been told by Professor Ross that those countries with the teeming millions, where the population is at the limit of the food supply, will be irresistibly impelled to go forth and possess the uninhabited portions of the earth. This is doubtless true, and they are welcome to them. When the European states began their policy of colonization, the force of the preventive checks to the growth of population was little appreciated. It was felt that some outlet must be found for the surplus population, and it was thought that trade followed the flag. Already the masses of the people are beginning to groan under the burden of taxation caused by the expenditures upon these colonies and to question their utility. There is no assurance that the country which is the biggest is the greatest or the happiest.

But when we come to consider the possibility that the vast hordes may descend upon the civilized nations more happily situated than themselves, and wrest from them the favored locations they enjoy, this is a different matter. True, food for cannon is cheap. But cannons are not cheap. And a nation which is at the limit of its food supply, with the misery and burdens which this implies, is not in a good position to endure the tremendous expenditure which a modern campaign demands. In this struggle the nation which enjoys a safe margin from want possesses a decided advantage.



There are certainly dangers connected with a too great restriction of the birth-rate, but they are small compared with those of an excessive rate, and he who is not confident that an equilibrium will be somehow established, with less misery than the earlier dispensation demanded, underestimates the power of the genetic force.

HENRY C. POTTER: It is a misfortune, to me of pathetic proportions, that I am obliged to add these few words to this discussion without the best of all preparations for uttering them—I mean the privilege of having heard those who have preceded me; and I desire, therefore, first of all to express my keen regret for the blunder—the fault of it is no one's but my own—which has unexpectedly deprived me of the privilege of being here a listener. For no graver problem could be presented for discussion by a sociological society than that which concerns our "western civilization." There was a time when that phrase had hardly any other than a playful signification. If there was a civilization that was western rather than eastern or southern, it was supposed to be that British civilization which has had its triumph and has won its wonderful victories by other forces—racial, civic, ethical—than those which are supposed to be peculiar to these shores; and it must be remembered that when, after the Revolutionary War, our ancestors undertook to construct, out of the original colonies, a republic; there were estimable and not unfriendly observers in older lands who were not slow to prophesy the speedy extinction here of *all* civilization. It did not happen. There were three great strains that mingled in the settlement of the parent colonies, and their influence cannot easily be exaggerated. One of these was Dutch, another was British, and another was French-Huguenot; and all

of these stood for certain great ideas which, whatever may be the ultimate development of this republic, laid its foundations. And in each of these, in time, there was a clear and profound conviction as to the august office, authority, and origin of the family. I do not know that, if the founders of the republic could have seen so far forward as the modern doctrine of evolution, they would invariably have challenged it; for men of science then, who were very far from being agnostics, recognized—some of them, at any rate—the inexorable operation, ordinarily, of great natural laws. But behind the natural laws they saw a divine law and a divine Mind; and in the Bible they believed that they had an expression of that Mind at once authoritative and infallible. Well, they read in that Bible: "Children are an heritage from the Lord: and the fruit of the womb is his reward. Happy is the man who has a quiver full of them" (Psalm 127: 3-5). And so a large family—fatherhood, and especially motherhood—came to be regarded as part of a sacred calling and the great households of children with which American tradition is familiar were a note of republican glory and virtue.

That those earlier ideas and ideals have widely ceased to prevail there can be no doubt; and that they had in them theories of obligation, or privilege, that were not wholly true there can, I think, be as little doubt. In the begetting and rearing of children, as truly as of inferior creatures, there may be a valid place for the precept *Multum, non multa*; and the first question for the citizen is not so much, How many children are born in the republic? as the question, Under what conditions are they being born and reared, and what is the promise of their maturity to the well-being of the state?

And this brings me to the peril which, as you will

doubtless have heard long before these words are read to you, menaces our land to-day. We are told, on the one hand, that the republic is being inundated with immigrants from all parts of the world, who are fertile, but not intelligent; material in their hungers, but ignoble in their aspirations; the product of conditions often cruel and brutal in other lands; and not likely to be unselfish or spiritually minded here. We are told that, multiplying like rabbits, they will soon outnumber the native stock, and that no more urgent sociological question can challenge our best intelligence than that which confronts us here.

I partly believe it; but I do not despair either of the republic or of the maintenance in it of the higher ideals of the family. It may be that we shall strive in vain to re-erect upon its throne that august sovereignty of the family which deified fatherhood, and which slaughtered women in the interest of bearing sixteen children! I am not prepared, at any rate, to say that some of those earlier theories of huge families were anything better than the selfish incarnation of unconsciously hypocritical ideas (for there is such a thing as "unconscious hypocrisy") disguising itself as religious duty. But, the moment that this is said, it must also be remembered that what somebody has aptly called "shirking the penalties of marriage" has begotten among us a group of nameless vices, of which prenatal infanticide is only one, and which deserve alike our indignant reprobation and our hostility.

And then, let us remember that, in order to secure worthy American children for the republic, we must have worthy parents. If it be true that there are swarming to these shores multitudes out of many lands, whose conception of life is little more than the merest animalism, we may not forget that these, of whatever race or blood

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they are, are our brothers and sisters, and that ours must be the sacred office of striving to lift them up. You and I believe that this is a land, not only of great ideals, but of the greatest. Let us show that we believe in them, by making them to live and burn in the breasts of all who touch these shores.

EMILY BALCH: The selective action of a birth-rate which is decreasing rapidly at the top is, of course, a most familiar subject. To that is added, in our country, the fact that the selection is not only a selection in favor of lower economic and social classes, but also very markedly a selection in favor of the foreign blood. Already in the United States the white population of native parentage is only just over half for the whole United States, counting equally and including the states which receive little immigration as well as the states which receive much. Now, within this body the native-born have fewer marriageable women; the marriageable women marry later; fewer of them marry at all; many of them are childless; those of them that have children have fewer children—not only have fewer children, but have fewer surviving children. The death-rate lessens the difference between the number of births, but it does not wipe it out. It still remains true that the native woman rears fewer children than the foreign-born. The figures of the new Massachusetts census, which are published only in part in the preliminary bulletin, are growing to be extremely foreign, and one interesting point is brought out in regard to the shorter child-bearing period of the native women. This period is for the foreign-born women over eight years, and for the native women only five years. Respecting the influence which Mr. Ross has given the family factor, limited even when the number of children desired is

present, one element is that the lower birth-rate may generalize itself, and there are reasons to expect this in homogeneous countries, like England, where this has already taken place to a considerable degree, the rural counties and smaller places feeling the effect of this new change very markedly. In Germany it has not yet taken place. There the effect is maintained very nearly in the great centers; but there is no reason why it should not spread to the country and the poorer classes, because the population is essentially homogeneous. With us there is not only all that, the higher birth-rate among the lower social and economic classes, the reasons for which I will not discuss because we all have it in mind, but there is also a racial and religious stratification running with the economic and social. Of course, that is particularly true in a population like that of Massachusetts, where the population is so much diversified. Where the Germans and Scandinavians make the population this is less true.

I think there must be in everybody's acquaintance someone to suggest that there are a great many childless families involuntarily—a great many families of a few children where more children would be most heartily welcome. It is a well-known fact that when the habits of any animal are disturbed its fertility falls off, so that many animals do not continue to breed in captivity. It seems to be a parallel fact that all types of men are not fertile under civilization. Possibly men are not naturally, quite apart from any other interference, highly fertile under the most highly civilized conditions. What are you going to do about it? We have some extremely interesting suggestions in the discussion which has recently been going on in the *London Times*, Sidney Webb starting it last March, which brought the whole question on the carpet again so vigorously. Sidney Webb, of course,

lays great stress on the economic factor, and believes that society should take a share, and that we should quickly come to social endowment of motherhood. Now it seems to me obvious that, in the shape in which Mr. Webb proposes that, it would be really by no means an improvement, as far as the selective aspect of the matter goes. If you believe that the decrease of the birth-rate has gone so far that it is a serious matter as a total, then, of course, if you want simply to have more people, to have any kind of people, depraved people quite as well as any other class, measures like this, like feeding school children, are a good thing; but if you believe it is important to have not only more people, but most particularly to have more of the right kind of people, then any measure of encouragement should be most carefully selective in character.

The first meeting of the sociological society in England, as you are doubtless aware, was largely given up to the discussion of eugenics by Francis Galton. He discussed the matter in a most conservative and at the same time suggestive way. One of the newspaper correspondents, following on this general discussion, suggested that anybody who chose, nobody to be compelled, but any persons who voluntarily chose might present themselves at an office for examination and get a marking and get themselves rated on intelligence, and in proportion to this rating get a subsidy for children, each subsidy to be for each child, but the rate varying according to their rating. Obviously we are in Utopia when we discuss anything like that as an immediate policy. But it is a kind of thing that people are certainly going to have to take into account in the future.

It does seem to me that there is a certain turn of the tide already in the upper layer, measuring by social and moral refinement; that there is a good deal of force mak-

ing for a greater desire for marriage, and happiness in marriage, and for larger families. It seems to me that there is a certain element of thinking, a certain tendency, perhaps, to think the profession, the life, of the married woman in some degree less intellectual or less tremendous in its possibilities than that of the unmarried woman at its best. This, it seems to me, comes through the fact that the modern woman of the highest type has quite definitely turned her force in the other direction; and her new utilization of health and love of it, not health as not being sick, but health as being a splendid living creature; her new interest in children, not only in the quite simple, inevitable way, but the tremendous interest in them that child-study points to, and the tremendous sense of their being the future citizens—all that means a new value and a readiness to sacrifice anything to it. It seems to me that there is a new sense in the community of approbation of and admiration for a happy father and mother and a big and happy family. All of this does not mean, by necessity, enormous families, of the Plymouth graveyard type, where I once noticed a stone which said: "Here lies So-and-so with twenty small children." It is obvious if, say, nine people out of ten married, that is, you had forty-five married couples in every hundred of the population, and say five of the forty-five had no children, and the others had each raised on an average five children, you would have double your population in a generation. And we have left a margin for the people who are not fitted for marriage, or who are not capable of marrying, or who have had life-histories and do not care to marry; and the people who had one or two children could easily be balanced by the people who had six or seven children. It does not mean necessarily to have a birth-rate which shall keep the margin growing, but should keep a margin



which is necessary, not only to colonize the waste places of the earth, but to supply a certain contingent element, which, so far as we can see, until we get very much farther on in volition, we are going to need as an element pushing us all forward toward progress.

I. M. RUBINOW: It is hardly necessary to say that in his able paper Professor Ross has touched upon one of the most important problems of society, and one of the most difficult to solve. The speaker is certainly to be congratulated upon the fearlessness with which he has attacked the problem, not hesitating to call a spade a spade.

On the other hand, one cannot help thinking that he may have exaggerated the extent of the opposition which his views will create; for, while the numerous classes he has mentioned in the end of his paper may have a great deal to say against his theories, the undisputed fact is that it is these very classes which, in this country at least, have made Neomalthusianism more than an abstract theory.

The facts quoted in the paper are undisputed; the decreasing birth-rate is admitted by all statisticians; nevertheless, it seems to me that in trying to prove his point Professor Ross has overestimated one cause and minimized all others. That the decreasing birth-rate is partly due to the exercise of the human will in marital relations cannot be denied, but is this the only explanation? Can it really be asserted that there is no marked weakening of the inclination to marry, if in this country the percentage of unmarried women between the ages of twenty-five and forty-four has increased within the short period of ten years (1890-1900) from 16 to 18 per cent.?

Another important fact is waived aside, and to my

opinion unjustly, namely, the effect of the postponement of marriage. That this factor, by reducing the limits of the child-bearing period, necessarily reduces the possible maximum of births, needs no demonstration. The family of twenty children can no more be met with. But it is also a well-known physiological fact that the chances of conception are very much smaller with women who remain unmarried until thirty, and that among them the proportion of sterile marriages is considerably higher. While it may be difficult to calculate the force of these factors exactly, there can be no doubt that they exist, and are becoming stronger, so that the birth-rate of civilized nations is limited by other factors than that which Professor Ross emphasizes.

Now, are these other factors sufficient to obtain the results necessary from the Malthusian point of view? I meet this with another question: Is it really necessary to obtain such results? Professor Ross accepts the Malthusian doctrine in its entirety; and that seems to be the weakest point in his argument. It is hardly possible to enter here into an extensive examination of that doctrine, nor is it necessary, after the interesting analysis given by Professor Fetter; but many of the statements made in the paper are somewhat startling.

I wonder how many students of history will agree with the generalization that most of the wars have been caused by overpopulation, or that poverty and class antagonism are due to an excessive birth-rate, and that these evils could be cured by reducing the birth-rate. Surely there is no dearth of class-antagonism in France, where the reduced birth-rate has become a grave national problem. The poverty of the Russian peasant can hardly be ascribed to overpopulation, especially in the Malthusian sense of insufficient food-supply, so long as Russia con-

tinues to export millions of bushels of grain to feed half of prosperous Europe. No matter what the advantages of Malthus' views as an abstract theory in mathematics, their invocation is peculiarly out of date after a fifty-years' period of falling prices of cereals, from which the agriculture of the world is just beginning to recover. And when one thinks of the barbarous condition of agriculture throughout the world, the danger seen by Malthus vanishes into the dim future concerning which speculation is as fruitless as it would be to worry about the possible exhaustion of the coal supply.

Thus the advantages of a reduced birth-rate from the economic point of view are problematic, to say the least. On the other hand, the disadvantages and dangers have already assumed a very serious aspect. First there is the danger of depopulation. That a falling of the birth-rate below the death-rate is undesirable, Professor Ross admits; but he meets the difficulty in a rather arbitrary way. "The family to be standardized," he says, "is not the family of one to three, but the family of four to six children." This, however, begs the entire question. For it is not a theory, but a condition, which confronts us. And the condition is that where Neomalthusianism is actually practiced, the family hardly ever reaches four, and never six, children; that two children, or even one child, if not absolute sterility, becomes the ideal; and that the number of children in the Neomalthusian family can be measured only by the frequency of breaks in the family system. This is the condition that France has to deal with; and this is the condition that we in this country have to deal with—only in this country the enormous immigration and the admixture of races of more normal habits obscure the actual gravity of the situation.

No less lightly does Professor Ross meet the great

danger of deterioration of the type. "Let the lower nations and the lower races also become adherents of Neomalthusianism," he says. How probable the conversion of the African or the Asiatic to this scientific practice may be, is a question not to be answered at once; but if the gradual introduction of these methods has so rapidly reacted upon the growth of population, what will be the results if the methods are to become universal?

Finally, a great, and perhaps the greatest, objection remains—that which the physiologist and the physician would indicate. It is to be regretted that some prominent representative of the medical profession is not here to discuss this problem in the light of medical experience. But even the every-day family physician knows the evils of Neomalthusianism. They are not accidental, but inherent in the practice. No preventive device is secure and harmless to the man or the woman, or to both; and it may be said, as a general rule, that the poorer the family, the more injurious are the methods used. Thus Neomalthusian victims are already filling the reception rooms of our gynecologists, of our alienists, and even the wards of hospitals for the insane. The layman will find a good picture of this aspect of the problem in Zola's great novel *Fecondité*; for, while the portrayal there is somewhat concentrated, it contains not a single incident that every family physician has not met in his practice.

The sociologist must meet the situation squarely. The practice of limiting the number of children is bound to spread, for in modern society the causes of this tendency are incurable. Children are an impediment, not only to the climber, to whom the first child is often a greater hindrance than the fourth, but to every man aiming at a higher standard of living. The disadvantage of parentage it still greater for woman, to whom it means danger

to life, bodily injury, and a long life of toil and worry; and the problem is especially acute now for the middle-class woman, because in earlier days the hired service of other women helped her to shift most of the burden of motherhood upon other shoulders. For all these causes modern society knows no relief.

The motherly instinct, however, is almost universal. But this instinct does not demand a very large number of children; and economic conditions, arbitrary regulations, and conventional morality force a great many women into a celibate or childless existence.

If a purely theoretical solution to this grave problem were desired, one might say that, if sexual life were not enforced upon the unwilling woman, as it was in the days of savagery with a club, and in our days of western civilization by means of the marriage contract, there would be no need of the fear of overpopulation; and were the maternal instinct of all women satisfied with a limited number of children, there would be no danger of depopulation. These suggestions may sound shocking, but they are not new. For the right of motherhood *per se* has already been advocated by German feminists, and the onerous obligations of enforced wifehood are silently objected to by thousands of women.

This solution is, of course, worthless under modern social conditions, based upon the economic and sexual dependence of woman upon man. The modern family, under the disguise of a sanctified ideal of marital fidelity, as flippant Bernard Shaw has effectively expressed it, permits a husband to commit rape upon his wife. The scientific sociologist, however, need not be told that modern society and the modern family do not possess the virtue of absolute finality.

C. W. A. VEDITZ: Two points have been merely touched upon which occur to me as having a fundamental bearing upon the subjects discussed in Professor Ross's paper. The first of them is so plain as to require nothing more than statement.

When in any family the number of children is so great as to exceed the number which could be properly fed, properly clothed, and properly cared for, this excess of numbers is apt to mean, not merely the extinction of the surplus children, but the underfeeding and undertraining of all of them. If, for instance, the income of a given family is just sufficient to rear decently three children, and five are put into the world, the probable consequence is not the total neglect of the two extra children, but insufficient care for all five. Too large families, therefore, mean, to say the least, an economic waste greater than that involved in the ultimate extinction of the excessive members. Professor Ross, however, appears to suggest that the presence of a large number of children in a poor family entails a selective process which weeds out the physically and mentally unfit and results in the survival of the fittest. I do not think that this is the case either in the large families or in the small families, or that it is mainly in the richer families with few children that the weaker offspring are given the special care that insures their survival. For whether the family is large or small, whether it contains three children or ten, whether the parents are rich or poor, it is as likely in the one case as in the other that the physically and intellectually weak are not weeded out in infancy, but kept alive by dint of lavish care, which in the case of a family of ten children with poor parents necessarily involves a corresponding neglect of the naturally stronger and brighter children.

The second point of equally fundamental importance is the manifest conflict of interests between the individual family and the community at large. The community wants soldiers, it wants laborers, it wants numerical strength. In France systematic endeavors have long been made by both private and public organizations to prevent depopulation. But it has frequently been noted there that the very leaders of the movement for raising the birth-rate are among those who in their private lives pursue that policy of "intelligent egoism" which limits the family to one or two children. They want the population to be increased, but they prefer that their own families remain small and that their fellow-citizens "save the nation from extinction." This conflict of interests has been strikingly brought out in recent French literature by a score of novelists and playwrights, of whom the foremost is probably Henri Brieux, the author of *Maternité*. If it be in the interest of society to have a relatively higher birth-rate, I fail to note any fallacy in the argument that if society is to reap the advantages from large families, then society should at least bear a large part of the burden involved by large families.

WALTER E. WILLCOX: Professor Ross's paper suggests the possibility of agreement among sociologists upon certain fundamental points involved in the problem of population. There is no time now to elaborate or discuss these points, which, it will be seen, lead us up to the question which the British Sociological Society has been considering the last two years, and which Francis Galton has done so much to bring within the range of serious discussion. These points, as I see them, are briefly as follows:



1. The increase of population among peoples of European stock during the last two centuries has been enormous and unprecedented.

2. This increase has not been due to any increase in the birth-rate, but rather to a decrease in the death-rate.

3. The decrease in the death-rate has been due to two main causes: first, an increased production of food, not only in Europe, but especially in other lands made tributary to European peoples; and, secondly, an increase in human control over diseases and causes of death not connected with the food supply.

4. While the second great cause of a decreased death-rate may continue to operate with undiminished vigor, the first seems likely to become less potent.

5. During the last half-century the birth-rate among peoples of European stock has tended to decrease, this tendency beginning to operate at different dates in different countries and in different classes of society, but being now well-nigh universal among the carriers of western civilization.

6. The primary cause of this decrease is that within the last half-century the western peoples have acquired for the first time the power to control the birth-rate and have exercised that power in accordance with their individual judgment.

7. In the decrease of the death-rate the interests of the individual striving to prolong both his own life and the lives of those dear to him, and the interests of society striving to reduce the sum-total of death in the community, have co-operated effectively toward a common end.

8. In the decrease of the birth-rate, on the other hand, there always may be, and doubtless often is, a conflict between the apparent or real interests of the individual or family and the real interests of society, the former

often indicating a balance of individual or family advantage in favor of a small family, the latter always indicating that it is for the welfare of man, as of any other form of life, to continue the species, so far as possible and as a rule through the agency of its best individuals.

9. This conflict of interests makes it possible, if not probable, that the decrease of the birth-rate resulting from considerations solely or mainly of individual or family welfare may be more rapid, either in the entire community or in parts of it, than the welfare of the society as a whole or of humanity justifies.

10. Under present conditions it seems probable that a nation may increase mainly from its weaker lines of descent, or at least may not gain as it might and should from its best lines. This change may extend even to races, and the white race lose the numerical predominance it has so recently acquired.

11. This possibility or probability raises a question of great sociological importance, whether a readjustment both ethical and economic is not needed and imminent, whereby the present and future birth-rate of the entire community or of the classes of pre-eminent social worth may be controlled less exclusively by the interests of the individual or the family, and more by the general interests of society, or whereby society may gradually modify the interests of the former class into closer agreement with its own.

## BABEUF'S PLACE IN THE HISTORY OF SOCIALISM.

ULYSSES G. WEATHERLY.

In speaking of the French revolutionary movements of 1789, 1793, 1830, 1832, and 1848, Professor Werner Sombart declares that "we have here movements which are essentially middle-class; in them political liberties are sought, and, so far as the proletarians are concerned, the masses fight the battles of the middle classes." So far as the first phase of the revolution, that of 1789, is concerned, it is beyond controversy that the proletariat played no part as a separate, class-conscious order. But when Sombart asserts that the movement of 1793 was "essentially non-proletarian," it is impossible to reconcile his view with the explicit utterances of the great terrorists or with the clearly marked trend of political activity. Delbrück, on the other hand, has expressed the belief that Marat and Robespierre were true social democrats, and Menger declares that Babeuf's conspiracy was the starting point of the present social movement.<sup>1</sup> It had already become apparent in 1793 that the form of political equality as taught by Rousseau was incapable of realization in the face of an uncontrolled inequality of property. The note of protest against the abuses of property and against the capitalist class grew ever stronger in the months preceding the Terror. Foreign war and domestic insurrection left to the Jacobin leaders little time to work out fundamental social doctrines, but it is not difficult to see that Robespierre and Saint-Just, if left in perma-

<sup>1</sup> Right to the Whole Produce of Labor, London, 1899, p. 61.

nent control, would have been carried by the logic of their own doctrines to the principle of social control of property.

That this trend had been clearly manifest is indicated by the fact that the Thermidorean reactionaries thought it necessary to push through the Convention, after Robespierre's death, a proclamation declaring: "Property ought to be sacred. Far from us those systems dictated by immorality and indolence which would prolong the horrors of thievery and erect it into a settled principle. Let the authority of the law guarantee the right of property as it guarantees all the other right of citizens."<sup>2</sup> Mallet du Pan, in his *Mémoires*, asserts that the Jacobins "were tending toward an agrarian law, toward the community of goods and powers, and toward the establishment of an agrarian, military and conquering democracy; they had declared war on commerce, on the arts and on industry, and wished to change France into a republic of soldier-laborers."<sup>3</sup> Thermidor checked the tendency toward an economic revolution just at the moment when its significance was becoming apparent.

Loss of power by the Jacobins at Thermidor had the usual effect of putting the more radical element in control of that party. Then, as so often in later years, the cry was raised that the revolution had after all only resulted in putting the bourgeoisie into the saddle. From the extreme element of the Mountain, from the irrepressible democrats who had learned their political philosophy from Rousseau, came the men who followed "Gracchus" Babeuf in his conspiracy against the Constitution of 1795. When these conspirators were arrested the charge against them was merely that of attempting the overthrow of the

<sup>2</sup> 9 October, 1794, Buchez et Roux, XXXVI, 128.

<sup>3</sup> *Mémoires*, II, 117.

Directory. At their trial before the High Court at Vendôme it was the political aspect of the conspiracy that was emphasized, for the evidence with reference to Babeuf's doctrine of community of property does not seem to have been then fully known to the prosecution. Perhaps it is for this reason that it has become the habit of historians to regard the Babouvists as merely another group of revolutionary conspirators, the successors of political Jacobinism. They were this, but they were more. Babeuf demanded first of all the restoration of the Constitution of 1793 and in this he regarded himself merely as the successor of Robespierre. Several times arrested, he continued to agitate against the Thermidorean government as being the destroyer of the republic.<sup>4</sup>

This was the political phase of his programme. But while in prison at Arras in the middle of 1795 he went over definitely to the communistic doctrine, and shifted the stress of agitation from political to economic issues. From this time his paper, the *Tribun du Peuple*, began to attack private property as an obstacle to political equality. "The Revolution is not ended," says a Babouvist document of a little later period, "because the rich absorb all valuable products and have exclusive command, while the poor toil like slaves and count for nothing in the state."<sup>5</sup>

<sup>4</sup> The chief sources on Babouvism are:

Advielle, *Histoire de Gracchus Babeuf et du Babovisme*, 2 vols., Paris, 1884.

Buonarrotti, *Histoire de la Conspiration pour l'égalité dite de Babeuf*, 2 vols., Bruxelles, 1828; later editions, Paris, 1830, 1842 and 1850. An English translation by "Bron-terre," appeared at London in 1836.

The principal Babouvist documents were republished in Reybaud's *Réformateurs ou Socialistes Modernes*, 2 ed., Paris, 1848. Tome II, pp. 358, ff.

Both Advielle and Buonarrotti (first edition) give the documents in full.

<sup>5</sup> *Analyse de la Doctrine de Babeuf*.

At this period also there dawned upon Babeuf a sense of the iniquity of the existing exploitation of labor as clear, if not as lucidly expressed, as that of Marx himself. "I behold," he says in a letter to Germain in July, 1795, "I behold without shirts, without clothes, without shoes nearly all those who prepare for use flax and hemp and wool or silk, nearly all those who weave, who make cloth and clothing, who prepare leather, who make shoes."<sup>6</sup> "If," he continues, "I then consider the little minority who lack for nothing, the landholders, I behold this minority composed of all those who do no work, of all those who are content to calculate, to combine, to juggle, to revive and rejuvenate under ever new forms the old conspiracy of a part against the whole, that is, the conspiracy by which a multitude of hands are set at work without the owners of those hands getting the natural fruit of their labor, but those fruits are heaped up in great masses in the hands of criminal speculators. The latter, having exerted themselves ceaselessly to reduce the wages of labor, combine with their fellow thieves, the merchants, to fix the price of everything so that this price is only within the reach of the members of their own group. . . . Thereafter those numerous hands (of the laborers) can grasp nothing, touch nothing, and the real producers are devoted to destruction, or at least the little that is left to them is only the mere froth or meager scrapings of the products of nature."<sup>7</sup>

But it is not alone against the capitalistic manufacturers that Babeuf brings this indictment. The whole business organization of existing society is part of the same vicious system. "Commerce," he declares, "ought to vivify everything and carry an equal support to all its agents," and he classes as agents of commerce all who in any way

<sup>6</sup> *Advielle* I, 145-146.

<sup>7</sup> *Ibid.*

co-operate in the processes of production. But why, he inquires, do the original agents of production, those who do the creative labor, the essential labor, receive incomparably smaller returns than the merchants who do only the most subordinate part of the labor—that of exchange? It is because the latter class “despoil,” while the laborers allow themselves to be “despoiled.” It is because the capitalists and merchants league together to hold in their grasp the “real producer, in order to be always in a position to say to him, ‘Work much and eat little, else you shall have no more work, and especially you shall not have anything at all to eat.’”<sup>8</sup>

Released from prison in October, 1795, Babeuf returned to Paris with the settled purpose to work no longer merely for the restoration of the Constitution of 1793, but primarily for the establishment of that communistic system which he now believed necessary in order to make the republic a reality. Denouncing private property as the chief source of all the calamities that afflicted society, he proceeded to combine the more radical of the surviving party of the Mountain with his own immediate followers into a group known at first as the *Société Politique pour le Triomphe de l'Égalité*, later called the *Société du Panthéon*, which continued its existence until interdicted by the Directory, 27 February, 1796, when the Babouvists were arrested.

Consisting as it thus did of one section whose chief interest was political revolution and of another concerned primarily for radical economic reorganization, the *Société du Panthéon* was never a homogeneous group, and even Babeuf's immediate followers were not wholly agreed on the details of the economic programme. After much debate all parties united in a statement of principles

<sup>8</sup> *Advielle I*, 147.



called the Manifesto of the Equals, setting forth the evils of the existing order and outlining a social system in harmony with the extremest ideas of equality. But, like the terrorists, the Babouvists were compelled to devote most of their energy to preparing a war for the establishment of their political system, and were not able to elaborate their social theories as they might have done in a period of internal peace. On account of the troublous times in which they worked they were of necessity rather the soldiers than the apostles of the movement for which they stood.

A secret Directory of Public Safety had charge of the revolutionary propaganda. This body in addition to preparing for insurrection found time to formulate a tentative economic decree to be submitted to the national assembly when the revolution should have succeeded. The chief points set forth were:

(1) That the unequal distribution of goods is the inexhaustible source of slavery and all public calamities.

(2) That labor by all is the essential condition of the social contract.

(3) That the ownership of all the wealth of France resides essentially in the people of France who alone can determine and change the distribution of it.\*

The first crude and verbose statements of economic doctrine in Babeuf's letters and in the *Tribun du Peuple* were supplanted by a document entitled *Analyse de la Doctrine de Babeuf*, prepared by Sylvain Maréchal and indorsed by Babeuf. This, together with the Manifesto of the Equals already mentioned and Babeuf's *Lettre a M. V*—furnishes the principal source of first-hand information as to the actual theories of the group. As a system of society Babouvism was undoubtedly a purely communistic

\* Buonarrotti, II, 157.

plan. Never before had the doctrine of absolute leveling been so explicitly proclaimed. "Let there no longer be any other differences among men than those of age and sex," exclaims the Manifesto. Since all have the same wants and the same faculties, let all accordingly have the same education, the same housing, the same nourishment. "They are content with a common sun and the same air for all; why should not the like portion and the same quality of food suffice for each according to his wants?" "The aim of society is happiness, and happiness is equality." So long as private property exists such equality is impossible, for property gives unequal powers. Proudhon's dictum, "Property is theft," was clearly foreshadowed in an utterance by Babeuf even before he became an avowed communist, "All that those possess who have more than their due individual share of the goods of society is theft and usurpation; it is therefore just to take it away from them."<sup>10</sup> The land is to be made common property, cultivation being controlled by a central administration so that there shall be in each commune a well regulated body of cultivators working in harmony with the general interest. Private commerce in agricultural products is to be abolished, and all commodities collected into public magazines, whence they are to be distributed by the administration to citizens according to their needs. For it is needs and not productive power that are to determine distribution. Labor is required from all, and to distribute to each according to his work would mean inequality, since all cannot work alike. "The unequal production of equal labor," says Buonarrotti, "ought to be rewarded by an impartial distribution."<sup>11</sup>

<sup>10</sup> *Tribun du Peuple*, No. 33, cited by Menger: *Right to the Whole Produce of Labor*.

<sup>11</sup> Buonarrotti, I, 257, note.

It follows then that charity to the dependent classes as such disappears. Marat and Saint-Just had denounced poverty and mendicancy as disgraceful to a democratic state. To the Babouvists the rights of the dependent and defective classes are equal to those of the workers so far as regards the goods of society. Since they cannot work, the right of property is replaced by the "right of every individual to an existence as happy as that of all the other members of the social body."<sup>12</sup>

It is hardly necessary to say that the Babouvists, being disciples of Rousseau, were hostile to the existence of cities. Their ideal system is one of communes more or less rural in character, where men are kept in direct contact with nature. Babeuf looks forward to the time when the arts working in harmony with the tillers of the soil, shall extinguish the great cities—those receptacles of every vice—and cover France with villages adorned with crowds of happy residents.<sup>13</sup> Buonarrotti is still more emphatic. He characterizes cities as a symptom of public discontent and a sure precursor of civil convulsions. The gathering there of great wealth and luxury breeds sycophancy, dependency and moral disorder. Moreover, constant change of services and of wages where wealth and luxury abound makes certain classes necessarily inferior and thus destroys equality.<sup>14</sup>

But while Babouvism was thus a communistic system, and in fact a more or less utopian one, it was based on economic doctrines equivalent to and often identical with those of modern scientific socialism. If, as Marx declared, there can be no political movement which is not at the same time social and economic, then the Babouvists were the first of the moderns to perceive the econ-

<sup>12</sup> Buonarrotti, I, 208.

<sup>13</sup> Réponse a M. V: Buonarrotti, II. 225.

<sup>14</sup> Buonarrotti, I, 221-224.

omic basis of the social problem and to state the socialistic philosophy of society. Stripped of verbiage and the sentimental cant of Rousseauism, there remains in their teaching the essence of nearly every important dogma of the modern socialist party.

Babeuf foresaw the central point of attack on socialism, in the charge that it would destroy the incentive to progress by destroying specialized tastes and aptitudes and by withdrawing the personal stimulus to scientific research and invention. He meets this with the contention that science and invention depend "more on love of glory than on love of wealth." In a communistic state, he declares, genius would be honored and rewarded better than under the present corrupt system where genius and virtue starve while folly and crime prosper. In any case the results of industry and the inventions of genius are rightly the property of society, for they are the products of previous inventions and industry, by which the new inventors and workers have profited in the life of society and which have aided them in their discoveries.<sup>15</sup> Thus early was the theory of "projected efficiency" anticipated.

Upon the question of the economic effects of machinery the Babouvists also had their word, and this was in essential harmony with the later views of Marx and Lassalle. If invention is really a social and not a personal achievement, then, they declare, the fruits of invention ought to go to society in lessened labor and more easily accessible products. Only in a communistic society, says Buonarrotti, can improved mechanical processes be a benefit, for there alone they operate to the benefit of the whole of society. Where private property in the instruments of production exists machinery is a means of exploiting

<sup>15</sup> Babeuf's *Défense*, *Advielle* II, 40, where Babeuf cites from the *Tribun du Peuple*, No. 35.

labor in the interest of the capitalist whose profits it augments.<sup>16</sup>

That culture and industry should be associated is a fundamental principle of socialistic teaching, whether utopian or scientific. The Babouvists would have carried this doctrine to extreme limits. Not only in the education of the young but in the whole realm of industry, art and intellect were to be inseparably associated with work. Æsthetics if divorced from industry they believed to be a promoter of class distinctions. Sylvain Maréchal, against the judgment of some of his colleagues, had even incorporated into the Manifesto the sentence, "Perish the arts if need be, provided only equality be left to us." Babeuf and Buonarrotti believed, on the other hand, that the arts would have a large use in giving pleasure and instruction to a society better able to profit by them than the existing one. It is the duty of the state, says Buonarrotti, to provide not only necessities but pleasurable things as well to its citizens; but only such enjoyments as can be shared by all alike should be allowed. All others are to be sternly repressed.<sup>17</sup>

The very nature of his surroundings forced Babeuf into the ranks of revolutionary socialists. The Manifesto asserts that, since equality is the natural order of society, to resort to revolution in order to secure it is merely to "revert to order," an evil which, compared with the continuance of the existing anarchic system, is small. Babeuf was willing that "all should return to chaos" in order that out of this chaos there should come a new and rejuvenated world.<sup>18</sup> To the inevitable objection that a socialistic system could not be successfully administered over a country so extensive as France, he admits that a

<sup>16</sup> Buonarrotti, I, 211-212, note.

<sup>17</sup> Buonarrotti, I, 210.

<sup>18</sup> Babeuf, Réponse à M. V.

strong administration would be necessary, but contends that a central body in control of industry, keeping constantly in touch with all the communes and informed of their needs and resources, could more effectively adjust production and exchange to demand than the wasteful competitive regime with its famines and its overproduction. He saw, if he did not state as clearly as Engels later did, the dangers of overproduction and the "vicious cycle" theory of commercial crises. Into the details of the governmental system, however, Babeuf did not go. For him and for the surviving Jacobins, the restoration of the Constitution of 1793 was to be the foundation principle of all political action. He had some idea however of how complicated the machinery of the socialistic republic must be, and Alfred Espinas has characterized his scheme as a "debauch of administration."<sup>19</sup>

If, then, Babouvism was, as it claimed to be, the logical development of the philosophy of Rousseau, Robespierre and Saint-Just, it seemed, like democracy itself, to have been completely extinguished at Babeuf's death in 1797. Ordinarily regarded as merely the last gasp of expiring Jacobinism, it is habitually connected in thought backward with the events of the revolutionary period and not at all forward with the history of social democracy in the next century. But Babeuf was more than the last of Robespierre's disciples. He was the connecting link between eighteenth century political democracy and modern revolutionary socialism. For more than thirty years after 1797 Babeuf and Babouvism were practically forgotten. But after the Revolution of 1830 Buonarrotti, one of the leading spirits in the conspiracy, returned from exile and took up his residence in Paris. Already in 1828 he had published at Brussels his history of Ba-

<sup>19</sup> *Revue Internationale de Sociologie*, VI, 316.

beuf's conspiracy, which was also an exposition of the doctrines of the school and which contained the chief documents in which they were set forth. This book, repeatedly reissued, had incalculable influence in the following years in forming the minds of the younger generation of extreme democrats, who imbibed from it those socialistic ideas which they now regarded as the natural outcome of democracy. Buonarrotti himself became the honored friend and adviser of some of the men who were destined to be champions of the social democratic movement. Chief among these was Louis Blanc, and the group also included Charles Teste and Voyer d'Argenson.<sup>20</sup> It is still a question whether Marx himself was not more influenced by economic ideas coming to him indirectly from this French source than by those of the obscure English socialists to whom Menger assigns credit for the leading Marxian ideas. For, despite the vagueness and mysticism of much of his teaching, it is with the militant political socialism of Louis Blanc and the Commune that Babeuf's system is to be classed, and not with the utopian idealism of Saint-Simon and Fourier.

<sup>20</sup> See Advielle, I, 360-361; also Louis Blanc, *History of Ten Years*, Philadelphia, 1848, II, 228-229.



## SOME RECENT THEORIES REGARDING THE STAGES OF ECONOMIC DEVELOPMENT.<sup>1</sup>

EDWIN F. GAY.

The paper opens with a review of the chief attempts made since the rise of the historical school in economics to formulate stages of economic progress, dwelling especially upon the views of List, Roscher, Hildebrand, Knies, Rodbertus, and Marx. Among several more recent contributions to the discussion of the so-called laws of economic development, those of Schmoller and Bücher have received perhaps the widest acceptance and therefore most demand a critical examination.

Their theories agree in characterizing the successive "self-sufficing" economies of the household, the town, and the nation, as stages in the economic history of western Europe, but they differ in the choice of criteria of classification and in the mode of presentation. Bücher especially has laid himself open to severe criticism for his historical inaccuracies in describing the economic aspects of ancient and medieval history. He has in both periods seriously underestimated the importance of the commercial and industrial factors.

Criticism, however, distinguishing between the theory itself and its presentation, finds that even when freed from exaggeration and error of statement the scheme of stages is an inadequate summary of economic progress. It does not sufficiently allow for differences of place and time as between countries, periods, and varying forms of

<sup>1</sup> This paper, of which a brief abstract is here given, will appear in a future number of the *Quarterly Journal of Economics*.

economic activity. The static character of the stages chosen as typical obscures the action of dynamic forces; the simple static formulæ neglect the operation of great transforming agencies, economic and social. Furthermore, the quantitative criteria of the theory, whether of extent of market area or of distance between producer and consumer, are found wanting when applied to a problem of qualitative estimation.

The laws of economic development which the historical school undertook to discover have not been formulated. The stages hitherto proposed are suggestive but inexact labels for loosely defined historical periods and possess only a limited and provisional value.

## STAGES OF ECONOMIC DEVELOPMENT.— DISCUSSION.

KATHARINE COMAN: The analysis of economic phenomena must vary with the point of view, and each of the series cited corresponds to the stages of evolution recorded of certain periods and peoples. List's sequence might be accurately exemplified not only in Israelitish history, but from the rapid transitions of frontier life west of the Mississippi. Bücher's analysis is true to German history. Marx anticipated by fifty years the vast capitalistic combinations that confront contemporary statesmen. We might go farther and enunciate other formulae. It would be equally just to postulate economic stages according to the development of manufactures, *e. g.*, hand-power, horse-power, water-power, steam, electricity; or according to the emancipation of labor, *e. g.*, slavery, serfdom, wage-labor, self-employment, trade-organization; or according to the individualization of property in land, *e. g.*, tribal, communal, feudal, allodial. The complex phenomena of industrial progress cannot be comprehended in any one series. Each phase of economic progress requires its own exponent, and a series of formulae would be necessary to any adequate exposition of the course of industrial evolution.

As industrial activities intensify, the thread of sequence becomes more difficult to follow. The transition from stage to stage seems hopelessly obscured by the world-encompassing transportation agencies of to-day. The domestic economy of the Slavic commune is invaded by

the ready-made goods of the world-producer. The sons of the patriarchal family are translated to the coal mines, steel mills and packing towns of the new world. We must rid ourselves of the notion that economic evolution is organic, that there is more than a verbal analogy to the processes of biological growth. In our science the sequence of forms is not inevitable. Economic progress is conditioned on the efforts put forth, the choices made by myriads of human beings, each actuated in greater or less degree by the economic motive. The great all-inclusive tendency underlying all formulae of development and taking shape in successive economic institutions may be simply stated. *Human society is being progressively industrialized.* As wants multiply, and because satisfaction is obtained only at increasing cost, economic enterprise grows more absorbing and more efficient. The formula of biological evolution, the survival of the fittest, should be reworded to state fitly the genesis of economic evolution. Industrial progress is determined by the survival of the most efficient.

Environment exercises an important influence on the course of economics, as on biological evolution. The determining conditions in our own country thus far have been free land and the absence of legislative restraint. While the limitless resources of a virgin continent were available to all comers, there could be no monopoly. The open door to the west meant opportunity for self-support, self-realization, freedom. The dominant *motif* of our economic legislation has been liberty. The binding obligations imposed by English proprietors and land companies were rejected. Old world institutions were sloughed off as outgrown, atrophied. Feudal forms of land-tenure, for example, servile dues, quit-rents, primogeniture and entail were abolished with the Revolution.

The independent states and the newly organized federal government gave fee simple title to all settlers on public lands. Penal enforcement of the labor contract has given way before the demand for personal liberty. Indentured service has long since disappeared, the binding out of children is rarely practised, peonage is illegal, the importation of contract labor is forbidden, the bodily enforcement of the labor contract has been abolished, even in the case of seamen.

The rapidity with which such transitions take place on American soil may be illustrated from the progress of the emancipated slaves. Impelled by necessity for self-support, by the desire for self-realization in liberty and property, the freedman became a wage-laborer. This relation proving unsatisfactory to both employer and employed, the free laborer became a "cropper," responsible for the cultivation of a special strip of land and under obligation to put in five, four, or three days' labor a week according to the extent to which he was financed by the planter. (A very interesting parallel to the stock and land lease of mediæval England may here be found.) The cropper, if industrious and fortunate, was soon able to make better terms with his landlord. He became a share tenant, then a cash tenant, and finally, by instalment purchase, full owner of the farm he tilled. By such patient endeavor the great plantations of the antebellum South have been broken up and fully 180,000 acres have passed into possession of peasant proprietors of the colored race.

What may be the effect of our present environment, the arable land largely taken up and other means of production concentrated in the hands of a few large-scale producers, lies quite beyond the scope of this enquiry. I have said enough to show that with due allowance for dis-

turbing forces,—cheap and rapid transportation, world commerce, and rapid transitions,—the course of economic evolution may be traced quite as clearly in the new world as in the old.

ERNEST L. BOGART: Severe as was Professor Gay's arraignment of Professor Bücher it was milder than that made by his German critics. The question, however, it seems to me, as presented by Professor Gay is somewhat broader than the accuracy of Professor Bücher's statements or the correctness of his analysis of economic development. Professor Gay has warned us against accepting the generalization of Professor Bücher, or in fact of any of the other German historical economists, as adequate explanations of economic development, or as the basis of further historical generalization. The broad question of the validity of historical generalizations is thus raised. If Bücher is wrong, if Schmoller, Hildebrand, Roscher, Knies, and the others are at fault in their description of the various stages of economic progress, can any generalization be made which will satisfy at once the historian, the economist, and the sociologist as satisfactory characterizations of human development? It seems to me that such are possible. Let me make my point clear by calling to your mind a theory of economic progress which Professor Gay did not describe, the familiar division of the stages of human progress ethnically into savagery, barbarism, and civilization. As you are all well aware the stage of savagery was divided into three stages, the emergence from the first of which into the second was marked by the discovery of fire, the second by the invention of the bow and arrow. The second period of human progress is that of barbarism, which was also divided into three stages, and the transition

from savagery to barbarism was made when the use of pottery first became universal. The second transference into a somewhat higher stage was made when the domestication of animals was brought about, and the third stage when iron implements began to be used. The final transition from barbarism into civilization was effected when the alphabet was invented. Here we have, then, certain large generally agreed upon events, inventions or discoveries, each of which in turn caused a revolution in the life and habits, in the economic organization and the industrial pursuits of the people involved. The last of these events, the invention of the alphabet, introduces us to the period of civilization.

Now the recent theories of stages of economic progress are all attempts to characterize man's progress through this last period of his life history. Is it possible, then the question is, to discover and select any marks or tests which will adequately do this, as adequately as was done by the earlier tests which were applied to describe the stages of savagery and barbarism? How have the theories under review met this demand? Hildebrand's famous stages, those of barter, of money, and of credit economy are manifestly one-sided and take account of only one factor in the industrial life of the people, that of exchange. So also Schmoller's and Roscher's analyses must be rejected as inadequate. Nor can Bücher's description, brilliant and interesting as it is, be accepted as a conclusive characterization of the stages of development. Professor Gay's criticisms are very much to the point in this regard. But shall we then conclude that no stages of economic development can be discovered broad enough to be universally applicable to all civilized nations? It does not seem to me that such a conclusion is necessary. It is, however, very difficult to frame any satisfactory generalizations which



will explain stages of economic development in the life of civilized man, especially the later stages of his development, because the dynamic element enters in so strongly and with such confusing effect. Commerce brings nations of different economic development into contact with one another, and as a result of that contact the industrially more backward nation has either skipped a stage in its progress or possibly it has perished as a result of its contact with the stronger and more energetic nation. But some sort of classification is necessary if we are to deal with the multiplicity of complex and confusing facts. Changes in technical production will perhaps give the most satisfactory test. Every one is agreed, I suppose, as to the importance of the great changes in economic organization, in industrial methods, and in social structure that were ushered in by the so-called industrial revolution. What characterized this and has marked the beginning of a new stage in economic development was the manufacture and the use of artificial power. It is not possible now in the short time that is allotted to go into details. It is sufficient, I think, to simply mention the fact and there will come up before you such a picture of the industrial revolution that you will readily agree that the manufacture of power marked as great a change in the economic development of man at the end of the 18th century and beginning of the 19th century as that, let us say, of the invention of the bow and arrow with the primitive savage.

I should like to say one final word about the danger that exists in applying these stages of economic development that have been described, or any other formulae, as explanations of the economic history of the United States. It has been done more than once. But it seems to me that any attempt to explain American econ-

onomic history by the application of these formulae or any of the others that have been described is foredoomed to fail, and not merely to fail, but it will almost necessarily mislead and confuse the interpretation of our economic history rather than aid in its understanding. Our own economic history has been unique. There was transferred to a new country with enormous possibilities, a people who were already far advanced commercially and in other ways. They were set down in the midst of primitive conditions, and they had temporarily, it is true, to revert to some of the practices of their primitive ancestors. To apply any of these formulae as explanations of the development of our westward movement, of the changes which have taken place in manufacture, or in agriculture or in transportation, is fraught not only with difficulty but with grave dangers. I should therefore agree very heartily in conclusion with Professor Gay that we ought to use these formulae with the greatest caution, and we of this country particularly should be careful how we apply generalizations which have been made under very different conditions. But that it is impossible to frame such generalizations and make them of service in the interpretation of historical sequences I think we have no reason to conclude.

RICHARD T. ELY: It seems to me that economists and historians have frequently taken somewhat too seriously the theories of stages in economic development. I do not think that it is possible to hold the view that there can be anything absolute in these stages in economic development. It is, however, extremely helpful to divide economic progress into stages, because the subject with which we deal in economic history is so vast that the human mind cannot take it in as a whole. The stages

give us simply convenient frameworks within which to arrange our knowledge. We may take a period in economic history and compare it with another period remote from it, and we find that each has distinct characteristics. This is true of the well developed pastoral stage as contrasted with the well developed agricultural or handicraft stage. Between the two there is naturally a transition and there are points at which one stage gradually fades off into the other. We have abundant analogies in nature.

Every different viewpoint gives us a new classification of stages and every new purpose gives us another classification. Any one classification should be governed by a single principle. I agree with Professor Gay in his criticism of Bücher, who puts things together which belong apart and puts apart things which really belong together. I agree also that the criteria of Knies are not satisfactory, because he gives us too many principles of classification so that the mind is confused. In our attempt to divide economic development into stages, for general purposes I think that we can take as our criterion man's power over nature. Let us ask ourselves the question,—what is the purpose of our economic activity? Naturally it is the larger and better satisfaction of our wants. Now we make progress in producing more and better goods just in proportion as we gain power over nature. This gives us a single concept and a useful criterion. This was the thought that really underlay the remarks of Professor Bogart. His enumeration of stages was based upon the increasing power of man over nature. The discovery of fire meant a great increase in man's power. We may speak of our first stage as the stage of finding things, when man takes what he finds and has little control over nature. Here again it is necessary to be cau-

tious. If a man constructs the rudest kind of a hut, he exercises some control over nature. But after all there is a stage in which the life of man is characterized by the fact that he in the main takes what nature has to offer. Beyond this we have the pastoral stage, the agricultural stage, the handicraft stage, and the stage of machine production. Within these stages we have various phases.

We must also make a distinction between the economic development of the human race as a whole and the economic development of any nation or section. The economic development of a particular portion of the earth is governed by various conditions, and especially by the time when it enters upon its economic life. Stages in the United States are influenced by the fact that we came into existence at a time when economically the world was well advanced. We have the pastoral life in this country, but naturally it is not like the pastoral stages of existence described in the Bible. Nevertheless we find our knowledge of the stages helpful in interpreting phenomena in the United States. In Colorado as population increases and economic life becomes more intensive we find men gaining increasing control over nature. The sheep breeders, for example, recently have introduced improved breeds of sheep.

EDWIN F. GAY: I should regret to leave the impression in the minds of my hearers that I do not recognize the use of economic stages. Despite their imperfections, they are suggestive and helpful. I have tried simply to point out their limitations, and this not merely in a general way but with specific criticism of that theory which has perhaps the widest present acceptance. My attitude in regard to the stages may perhaps be summed up in what Meredith somewhere says of a proverb. A proverb

is like an inn; an excellent halting place for the night but a poor dwelling. Here lies the danger of the stages. Because of their convenient generalization, they tend to become accepted without proper recognition of their purely provisional and inherently defective character.

It has been asked whether I would deny the possibility of establishing any finally satisfactory theory. This, I confess, is entirely beyond my ken. Our historical record is not merely imperfect; it is too short for safe theorizing. At some distant future, from the longer and fuller series of historical observations which then doubtless will be available, a sociological Newton may possibly draw the adequate formulae. I suspect, however, that philosophies or laws of history must always remain relative and provisional. In the meantime we must put up, but cautiously and critically, with such partially satisfactory schemes as are necessary to satisfy our logical craving for some system of classification of the complex phenomena of history.

## GOVERNMENT REGULATION OF INSURANCE COMPANIES.

MAURICE H. ROBINSON

The risks or hazards to which man and his economic interests are subject may be separated into two classes,<sup>1</sup> (1) speculative risks resulting from general price fluctuations and (2) the risks of production and consumption. The former fall upon a class as a whole, and hence are not readily transferred by insurance. The latter affect either individuals or small classes. They may therefore be borne by those upon whom they originally fall, or they may be shifted to other shoulders, or finally they may be distributed over the group as a whole. Primitive races are not only largely under the dominion of the aleatory forces, but they have no systematic method of distributing the losses arising from this source. Consequently, the weaker individuals and those less endowed with foresight are rapidly eliminated. Nevertheless, the natural law of survival has never been allowed to operate without restraint. The family, the tribe, and the nation in ancient times provided more or less effectively for the weak and unfortunate. Christianity introduced a new ideal and a new institution:—the ideal of a universal brotherhood and the church as the active agency by which the burdens were alleviated. The church came to regard the care of the unfortunate and distribution of alms as its duty if not its inherent right. It thus gained a hold upon me-

<sup>1</sup> H. C. Emery, "The Place of Speculation in the Theory of Distribution." Publications of the American Economic Association, Third Series, Vol. 1, No. 1, p. 103 sqq.

dieval society which it could probably never have attained upon purely religious grounds—a fact which may partially account for its hostility to all forms of life insurance. Gradually the church has either abandoned or been forced to give up this field to various voluntary, industrial, and social organizations whose bond of union is economic rather than religious. These organizations are (1) those formed primarily for industrial purposes, including the guild, the labor union, the combination and the corporation. While established for other purposes, each of these institutions exercises a profound influence in distributing the risks of industry to the individual members of the group; and (2) those organized primarily for transferring risks, that is, the insurance companies. The insurance companies were slow in developing, but once their economic function was appreciated their growth has been phenomenally rapid. They have thus taken upon themselves many of the burdens formerly assumed by the family, the church, and the state. The state is therefore, as the ultimate sufferer from the losses which the insurance companies are able to lighten by transferring to many shoulders, forced by every mandate of self interest to see that all forms of legitimate insurance are so conducted in principle and practice that they may minister to the largest possible number consistent with safety and economy.<sup>2</sup>

Insurance, therefore, necessitates the organization of the several groups upon whom the risks naturally fall into permanent associations. Such organizations are theoretically possible without the intervention of the state.

<sup>2</sup> For arguments opposing regulation, see Henry C. Lippincott, in *Insurance Press*, Nov. 7, 1906, and testimony of J. H. McIntosh in Hearings before the Committee on the Judiciary in relation to Insurance, Washington, 1906, pp. 120-137.



But under such circumstances rights and duties must necessarily be settled within the company itself. A government with courts to adjudicate controversies and an army to enforce discipline becomes essential to the existence of these organizations. Such a condition needs only to be mentioned to be discredited. The state exists to establish and maintain justice and protect life, liberty, and property. As the relations of individuals are coming to be determined more and more through their membership in various economic and social organizations, the state is in duty bound to extend its functions until it includes the direct regulation of all associations within its borders.

The above considerations apply to all forms of associations which are economic in their purpose. The state is under further and especial obligations to regulate insurance companies. The contract between the company and the insured is necessarily of a contingent nature<sup>3</sup> and often extends over a long period of time. The ability of the insured to continue payments may be impaired. To forfeit payments already made, as was the custom in the early days of life insurance, defeats the purposes for which insurance exists. Such a practice not only leaves the policyholder without protection, but also absorbs the means with which he might have protected himself in his hour of distress. To render insurance safe, the payments must be larger than is usually necessary to meet mortality losses and the expenses of conducting the business. Hence a return in the form of dividends. Payments less dividends thus constitute the net cost of the policy. If the price of groceries is exorbitant at A's store, the housekeeper is in a position to patronize B or C. If company A is extravagant in its management or unfair in its dis-

<sup>3</sup> Rosselet, F. Fourth International Congress of Actuaries, Vol. II, p. 240.

tribution of dividends, what recourse has the policyholder? To surrender his policy? Even under the most liberal surrender values and with the most meagre dividends such a process is always costly. His old policy has been more expensive than a term policy for the same period, and the new policy purchased in its place must be taken out at an advanced age, and therefore at a higher annual expense. Indeed, the only recourse the individual policyholder has had under such conditions in the past, except for the slight aid given by the state and the stress of competition, has been an early death. Again, the enforcement of the contract often falls upon the widow or orphaned children, who have in many cases neither the means nor the ability to protect themselves, and in this case to employ counsel usually makes insurance too expensive to be expedient. From these considerations it may be concluded:

(1) that regulation is a necessary function of government;

(2) that insurance conducted by large organizations requires more regulation than that by smaller ones.<sup>4</sup>

(3) that short term insurance, such as fire, marine, casualty, surety, etc., demands less regulation than full life insurance;

(4) the insurance usually taken by the economically weaker classes, such as industrial insurance and certain forms of assessment insurance, demands more efficient regulation than that patronized by the economically stronger classes; and

(5) so salutary is the effect of insurance in all its legitimate forms that wherever and whenever the state is

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<sup>4</sup>For application of this principle in Germany, see paper of Dr. von Knebel Doeberitz in Fourth International Congress of Actuaries, Vol. II, p. 230.

unable to secure safe and economical insurance from private companies through effective supervision it would seem to be its proper function, if not its duty, to provide such insurance through its own direct agency.

The ultimate social and economic purposes which the state has in view should largely determine, first, the scope and character of such regulation, and, second, the particular government authorities to which the supervision may properly be intrusted.

From the social standpoint the object should be to provide insurance adapted to the needs of the weaker industrial classes so economical and so safe that such classes may enjoy its benefits as fully and freely as their means allow. From the economic standpoint the purpose should be to secure an organization for each company so efficient and safe that insurance may be provided at the least possible cost and so representative in its government that every interest may receive its benefits in equitable proportion to its contributions to the common fund. To secure these necessary ends four radical changes in our present policy of insurance legislation and administration are desirable, if not absolutely necessary:

- (1) In laws relating to incorporation and internal government of insurance companies;
- (2) In the provisions for a reasonable and adequate system of publicity;
- (3) The transference of the control of the interstate insurance from the state to the federal government; and
- (4) In the abolition of much of the present restrictive legislation.

First, the insurance company must be made up of many individuals in order to be safe and economical. Its management must be intrusted to a few to be efficient. Hence arises the problem of establishing and maintaining

a strong and responsible government. The failure to accomplish this necessary end has been one of the chief causes of our recent insurance troubles. The Armstrong report says:

"Notwithstanding their theoretical rights, policyholders have had little or no voice in the management. In-trenched behind proxies, easily collected by subservient agents and running for long periods, unless expressly revoked, the officers of these companies have occupied unassailable positions and have been able to exercise despotic power. Ownership of the entire stock of an unmixed stock corporation could scarcely give a tenure more secure. The most fertile source of evils in administration has been the irresponsibility of official power."<sup>8</sup>

The first step, then, to be taken in effecting this reform consists in remodeling our laws relating to the business organization of the companies. At this point the insurance problem is a part of the larger corporation problem—and even more complicated. For the insurance company is mutual in its nature and therefore likely to be such in its organization. The policyholder thus occupies a dual position, at once stockholder and patron. He understands the latter position, but usually has failed to appreciate the fact that his well-being as a patron depends upon how efficiently he performs his duty as a stockholder. This will be no easy problem to solve. Its effective solution will largely depend upon three conditions: first, the active interest of the policyholder; second, the ease of operation and efficiency of the machinery provided, by which he expresses his will as to the personnel of the management and the policy of the company, and, third, the system of publicity provided upon which his judgment rests.

The present condition is exceptional. The policyholders are thoroughly aroused by the revelations of the

<sup>8</sup> Report of the Armstrong Committee, Vol. X, p. 366.

Armstrong and other investigating committees. The control of vast interests is at stake. Such a campaign as that which has been waged is likely to occur only once or twice in a lifetime. When apathy succeeds interest then the machinery governing the election of directors and the dissemination of information needs to be so easily and almost automatically operated that the administration shall under all circumstances be at once efficient and responsible. When, in the progress of time and a fuller understanding of this problem, much of the restrictive legislation of the present day shall have been outgrown and abandoned, the future historian will point to the Armstrong legislation as the first conscious attempt to control insurance companies through a responsible self-government.

Second, such regulation depends upon intelligent action by the policyholders, and such action is possible only when based upon full and accurate knowledge of facts and conditions. Its success necessitates a system of adequate publicity both as to financial conditions and as to methods of operation. Publicity is also the most powerful deterrent to fraudulent and selfish management known to political science. Says Commissioner Garfield in his last report:

"A most striking and important result immediately followed the investigation of the Bureau—the railroads cancelled substantially all their secret rebates, illegal or improper discriminations, and in many cases the discrimination in open rates. Thus a widespread system of railway discrimination was wiped out of existence because of the discovery by the agents of the Bureau, and before any prosecutions were brought thereon. The shippers of oil advise the Bureau that for the first time in many years they are now rapidly obtaining equality of treatment from the transportation companies."<sup>8</sup>

<sup>8</sup> Annual Report of the Commissioner of Corporations, 1906, p. 4.

The various investigations into the insurance companies' management will undoubtedly prove more valuable for the publicity given to their affairs than from their influence on legislation.

Two methods of securing publicity are practicable:

(1) Through government investigations and examinations; and

(2) Through independent audits by professional accountants.

The former is the method generally employed in this country, Germany, France, and Switzerland. The latter is confined chiefly to England, and there has proved a most valuable aid to the government and to the policyholder. As is well known, the regulation of insurance companies in England is intrusted to the Board of Trade, who rely chiefly, not upon examinations by government officials, but upon the report of the companies regularly audited by public accountants.<sup>7</sup> It is more, perhaps, to the credit of the effectiveness of the independent audit than to any other regulative device that we may attribute the high standing of the English insurance companies. Public attention has been repeatedly called to the desirability of uniform accounting, and the independent audit by public accountants appointed by and in the interests of the policyholders, by the American Association of Public Accountants on several occasions<sup>8</sup> and lately by the Massachusetts Commission on Insurance Law. The report of the latter says:

"The recent investigations in New York have revealed among other evils, two serious defects in the internal and external regulation of insurance companies: namely, an unsatisfactory and inefficient system of internal accounting, bookkeeping and auditing, and a superficial and inade-

<sup>7</sup>James Chisholm; Fourth International Congress of Actuaries, Vol. I, p. 1006 sqq.

<sup>8</sup>Journal of Accountancy, April, 1906, p. 525; August, 1906, pp. 290, 297; November, 1906, p. 74.

quate examination of the companies by the insurance department of that state. As a result the officers of the companies have wasted funds by unauthorized, illegal and improper expenditures; misleading financial statements have been made to insurance department, policyholders and the public, and the majority of directors and trustees have been kept in ignorance of many doubtful and irregular transactions."

The commission, therefore, advocates the passage of an act compelling companies to adopt a uniform system of accounting and to submit to independent auditing by certified public accountants, and concludes:

"If the system proposed had been established in New York several years ago, many of the familiar evils of the past two years would have been revealed. It would have been impossible under such a system for the officers of the greater companies to have concealed their transactions from the policyholders or the insurance departments."

Third, in centralized governments the question as to whether the local or the federal government is best fitted to exercise efficient control over insurance companies does not arise. In England, France, Italy, Russia, Sweden, Belgium, and other states of this form insurance is naturally regulated by the general government. In federal governments this problem may under certain conditions assume proportions that entirely overshadow all others. Theoretically, the solution is simple enough. All economic activities that are entirely local are properly regulated by the local government. All economic activities that are interstate are properly regulated by the federal government. Such is the distribution of functions in regard to the regulation of insurance in Germany, Switzerland, Canada, and Australia. Such is the distribution of functions in regard to commerce and transportation in the United States. With respect to insurance the United



States has clung to a method which all other federal governments have discarded and which she, too, has abandoned for all other similarly organized economic institutions. The reasons for this anomalous situation are not far to seek:

(1) Insurance is a modern institution. When the federal constitution was adopted insurance, so far as it existed, was entirely local in character. As the insurance business developed and companies were instituted, their regulation was assumed by the state governments without any direct consideration of either its advantages or disadvantages.

(2) The transference of the control of the insurance companies from the states to the federal government under the authority granted Congress by the commerce clause would be attended with far-reaching legal and economic consequences. This follows from the doctrine that a state has no power to impose restrictions on commerce among the states even in the absence of federal legislation,<sup>9</sup> except such as may be necessary for the enforcement of its police regulations. Consequently, insurance officials would be forever protected on account of past offenses from either criminal prosecutions or civil suits brought under laws of other states. And further, all rights of the policyholders under the statutes of other states would be invalid.<sup>10</sup> And

(3) The state governments naturally enough object to loss of power and lessened patronage.

The present method of regulation has, however, become well-nigh intolerable. The companies have been subject neither to effective self-government nor to wise public control. Irresponsible management on the one hand, fifty self-seeking state jurisdictions with conflicting statutes,

<sup>9</sup> *Welton vs. Missouri*, 91 U. S. Reports, 275.

<sup>10</sup> Unpublished address by Prof. F. Green, Urbana, Ill.

retaliatory measures, "hold-up" acts, fake examinations, and unequal, if not exorbitant, taxation on the other, until insurance in some of its forms has become unduly expensive and often more risky than the hazards which it is its function to alleviate. Why, it may be asked in all seriousness, with fifty states and territories constantly at work grinding out statutes and fifty insurance departments continually examining companies and issuing voluminous reports, why has our insurance history been disgraced by one period of widespread bankruptcy, and now by another of extravagant and fraudulent business management? Is it lack of authority? In the words of the Armstrong report:

"This condition has not resulted, as has been stated, from lack of legal authority either to inquire into the irregularities now exposed or to compel reports which would have exposed them. No substantial amplification of the powers or authority of the department seems necessary."<sup>11</sup>

The failure of the present system is due chiefly to the fact that it fails to recognize the essential principles that apply to the regulation of insurance companies.

(1) The government controlling any economic organization should include within its geographical limits the constituent economic society thus regulated.

(2) The insurance company is an indivisible and inviolable organism,<sup>12</sup> and, therefore, must of necessity be regulated as a unit.

(3) Each separate state is primarily interested in the operations of the interstate companies only so far as they affect the citizens of that state.

State regulation is therefore destined to fail. For if the several states attempt to regulate all the companies

<sup>11</sup> Report of Armstrong Committee, Vol. X, p. 360.

<sup>12</sup> Adan and Le Jeune; Third International Congress of Actuaries, London, 1900.

operating within their borders as organic units, fifty statutes relating to the method of organization result. Unless such legislation is uniform, each insurance company will find itself compelled to withdraw from all states whose legislation is not in harmony with that in which it has its charter. Again, if the states attempt to regulate the companies only so far as their operations within their geographical borders are concerned, no sufficient safeguard against a contaminated business management, the fruitful soil of most of the evils that arise within its own domain, is provided.

As the failure of state regulation has become more and more apparent, and as the fundamental reasons therefore have been gradually appreciated, a growing and persistent demand for federal regulation has developed. The strength and vitality of this demand is indicated by the following phenomena:

1. The replies to the letter sent out by Senator Dryden to some eight thousand associations and individuals throughout the United States in September, 1905, asking for an expression of opinion on the suggestion of President Roosevelt that interstate insurance companies be regulated and brought under federal control, showed that 83.3 per cent. of those answering were in its favor;<sup>13</sup>

2. The work of the National Association of Insurance Commissioners, a body that has accomplished more than any one other single agency for uniformity of state legislation and administration, is in itself a tacit admission of the desirability of uniformity, a condition which only federal regulation can successfully accomplish;

3. The agitation in the present Congress in behalf of the Ames bill is based upon and supported by the same insatiable demand; and

<sup>13</sup> "The Commercial Aspects of Federal Regulation of Insurance," by John F. Dryden, p. 17.

4. The organization of the life insurance companies into a permanent association, as proposed by President Morton, of the Equitable, in a circular letter of December 3, which has recently been perfected and is to-day in session in New York, is in answer to the same demand for uniformity of laws governing the regulation of insurance companies.

None of these organizations for securing uniform statutes seems likely to accomplish the desired end. The National Association of State Insurance Commissioners has been at work for thirty-seven years, and the task before it grows larger and more hopeless. The "model" act for the District of Columbia has received the approval of many of the leading authorities on this question, and yet, when one stops to consider that this same act was devised "to get around the inability of Congress to legislate" under the commerce clause of the constitution, and further, that the present statutes governing the insurance business in the District of Columbia, enacted as recently as 1901, to use the exact words of the Commissioner of Insurance for the District, "are the worst in existence,"<sup>14</sup> one may well stop to inquire whether the leopard is to change his spots or whether we may yet find that figs are to be gathered of thistles.

Of the two methods by which direct federal regulation may be secured, that by amendment to the national constitution is far preferable from every standpoint, except that of practicability. For it would effect no change in the legal status of either officers or policyholders, and again, it would avoid a long period of litigation and judicial decisions in the courts. It would seem from past experience, however, that only in case of a great popular uprising is it possible to change our fundamental law.

<sup>14</sup> Testimony of Thomas E. Drake; Hearing before the Committee on the Judiciary . . . in relation to Insurance, 1906, p. 140.

Such being the case, is it possible to secure federal regulation by act of Congress?

Agitation for such regulation began in 1865 as a direct outgrowth of the passage of the national banking act of the preceding year. A memorial was presented to Congress asking relief from the burdens of state supervision. The first bill actually introduced was in the year 1868, following the lines marked out by this memorial. In 1877, as a direct outgrowth of the insurance bankruptcies of 1874, a second attempt was made, but without result. The Patterson bill of 1892, the Platt bill of 1897, and the Dryden bill in 1906 complete the list. The political, economic, and social difficulties in the path of federal regulation by act of Congress have already been indicated. In addition to these, however, there is a constitutional question involved which political scientists may consider and constitutional lawyers argue, but only the Supreme Court may finally decide. The question is, has Congress authority under the clause granting it power over commerce among the several states to regulate interstate insurance companies? The Supreme Court, in a series of decisions — *Paul vs. Virginia* (8 Wall. 168), 1868; *Hooper vs. California* (155 U. S. 648), 1894; *N. Y. Life Insurance Co. vs. Cravens* (178 U. S. 389), 1899; and *Nutting vs. Massachusetts* (183 U. S. 553), 1901 — has definitely stated that "issuing a policy of insurance is not a transaction of commerce", and "these contracts are not articles of commerce in any proper meaning of the word". The court also went so far as to declare in *Paul vs. Virginia* that "such contracts are not interstate transactions, though the parties may be domiciled in different states", on the ground that the contract was not completed until the policy was delivered in the state where the insured lived.

Notwithstanding the decisions of the court in these and other cases, a considerable number of men whose opinions are eminently worthy of respect believe that federal regulation through this method is the only practicable one, and that it is worth the while to test the constitutionality of such an act. They look for a favorable decision on the following grounds:

1. In all the cases above referred to the issue was brought under a state statute. In none of them was the validity of an act of Congress called in question. In none of them did the decision hinge upon the constitutional classification of the business of insurance;<sup>15</sup>

2. The Supreme Court has shown a tendency in some of the more recent cases to adopt a more liberal interpretation of the meaning of the commerce clause. In the lottery case it was held by a majority of the court on the construction of a federal statute that the transportation of lottery tickets by express involved interstate commerce, and it was therefore a valid act. Further, the clause is to be interpreted in the light of present conditions, and, consequently, in the words of Justice Brewer, "it operates to-day upon modes of interstate commerce unknown to the fathers, and it will operate with equal force upon any new modes of such commerce which the future may develop."<sup>16</sup> If, therefore, the transportation of lottery tickets from state to state is interstate commerce, and the word commerce is to be interpreted in terms of its present day meaning, is it not to be concluded that insurance may yet be held by the court to be a part of or at least involve commerce?

3. Again, it is evident from the language used that the court had in mind the transaction by which the con-

<sup>15</sup> Majority Report of the Committee on Insurance Law, American Bar Association, 1905, p. 7.

<sup>16</sup> *In re Debs*, 158 U. S. 591.

tract between the company and the insured was completed. That is, the delivery of the policy to the policy holder by the company's resident agent. Such a transaction is evidently not commerce in the ordinary meaning of the word. This act, however, while an important part of the work of the company, from the legal point of view, is of minor importance from the economic standpoint. A more complete analysis discloses that the insurance company is engaged in creating time utilities and selling the commodities by which such utilities are for the time being represented to those who are in need of them. A simple case will illustrate: An insurance company for and in consideration of the sum of \$432, or thereabouts, will sell to a man of 35 years of age, in good health, \$1000 in gold or other lawful money, payable upon proof of his death. Here is a purchase and a sale, the essential elements of trade or commerce. That the trade is in terms of gold or other lawful money does not prevent it from being commerce, otherwise those who buy and sell gold bullion and gold coin must be excluded from that field of economic activity. Neither is it an essential condition of commerce that the commodities be "subjects of trade and barter offered in the market," that is, bought for the purpose of selling again for the sake of the profit. Such a limitation of the term would exclude the farmer who sells eggs direct to his city customer from taking part in commerce, while admitting the retailer who buys to sell again. Under this construction a retail clothing store would not be engaged in commerce when selling articles of clothing of its own manufacture to the individual who is to wear them, but would be so engaged when selling clothing made by the regular manufacturers of clothing. Commerce refers to an especial kind of commercial transaction, that is, the process by which



titles to commodities and other economic utilities are transferred. The banker who buys and sells commercial paper is engaged in commerce, so is the broker when buying and selling securities; so is the real estate agent when buying or selling land; so is the manufacturer who sells his own goods; and so is the insurance company when selling insurance. The term insurance has at least three meanings as ordinarily used. (1) As a legal term it refers to the formation and the character of the contract between the parties; (2) as a commercial term it refers to the process by which the relations between the parties are established; and (3) as an economic term it refers to the effect of the institution upon the distribution of wealth. The courts have confined their attention chiefly to the first meaning and have failed to appreciate the importance of the second. From the standpoint of the company the commercial process of selling insurance is second in importance only to the actuarial basis upon which its security rests. There can be little doubt that when the Supreme Court is obliged to pass upon the constitutionality of an act of congress which declares that interstate insurance business is inter-state commerce, and that policies are articles of commerce and instrumentalities thereof,<sup>17</sup> it will consider from every point of view the terms commerce and insurance, and when it does so it will be obliged to recognize the fact that insurance involves commercial transactions if, indeed, it is not predominantly an integral part of commerce itself.

4. Certain other considerations are entitled to a hearing. James Wilson speaks of "bills of exchange, policies of insurance and other mercantile transactions".<sup>18</sup> Hamilton in his opinion upon the constitutionality of the proposed United States Bank objected to the enumeration

<sup>17</sup> Dryden Bill, Sec. 16.

<sup>18</sup> Wilson's Works, I, p. 335.

of the powers of Congress as stated by the Attorney General, on the ground that among other powers he had failed to include "the regulation of policies of insurance."<sup>19</sup> Furthermore, insurance law had its origin in and is generally treated as an integral part of the law merchant or commercial law; and again, the regulation of insurance is in the most advanced commercial countries administered as a part of the department of commerce.

Fourth. When a responsible government has been provided for our various insurance companies, ensuring an administration at once representative and efficient, when an adequate system of publicity has been established through which the policy holders and the administration are kept in vital touch, when, further, the government which regulates is in economic harmony with the insurance institutions which it controls, then, and not till then, will it be possible to abandon the policy of restrictive legislation, which has been at once a necessary concomitant and the vital weakness of state regulation.

<sup>19</sup> Hamilton's Works, Lodge's ed., III, p. 203.

THE PRINCIPLES WHICH SHOULD GOVERN  
THE REGULATION OF LIFE INSURANCE  
COMPANIES.

WILLIAM C. JOHNSON.

To the individual physical life there is no end more certain than death, and in turn nothing more uncertain than when that end may be reached. In a group of lives sufficiently large for the fair operation of the laws of average, it will be found, however, that, while no intelligent or safe prediction may be made concerning the length of any individual life, it can readily be told how many of the group will die each year. In other words, it will be found that there is a *law of mortality*, whose operations are so exact that, while they are subject to slight fluctuation from year to year, it is possible to predict in advance with practical certainty what will be the average lifetime of the group and the rate at which the lives will fail.

As with the advance of civilization the life of the individual became more complex, and his responsibility to those around him more marked, with an increasing necessity of adequately equipping dependents if they were to conquer in the struggles of life, men, subject to the same hazards and facing all an ultimate event, the only uncertainty affecting which was the moment of its occurrence, combined together for mutual protection, that from a fund created by the contributions of the many, provision might be made for those dependent upon the few lives (their individual identity not known) which experience indicated might be expected to fail year by year. The principle underlying this form of co-operation was in-

*demnity*—to indemnify the families of those overtaken by death for the loss of a productive life, a life of money value to them. It may be said in passing, as applicable to all forms of insurance, that its sole legitimate purpose is to furnish protection against some hazard, through the promise of indemnity—the promise to make good any loss which may occur upon the happening of the contingency insured against; as in fire insurance, the loss of one's house; in marine insurance, the loss of one's ship or goods; in life insurance, the loss, to those dependents to whom the benefit is payable, of the value of one's life. This principle underlies all insurance, that it furnishes indemnity (not profit)—the making good, in a measure at least, for a loss which has occurred. To make use of insurance for other ends is violative of its true principles and purposes.

When men entered upon the task of providing indemnity for the families of those who should die, by distributing the loss among those who survived, they necessarily, as the business, from its character, could not be carried on by a single person, but only by the co-operation of many individuals, formed associations or companies to provide the machinery through which the cost might be collected and the indemnity paid.

It was in 1762 that the first society to insure people for the whole of life and promising a determinate sum in return for a fixed premium was chartered in Great Britain, and now, as then, the business is conducted by associations, societies or companies chartered by the Government and possessing only such privileges, rights and powers as have been granted them by the people. It has been said that the one proper purpose of government is to keep the peace and do only those things which are essential to that end, and that legislation founded on any

other principle is unsound. Those who hold this view have failed, it seems to me, to appreciate the real significance of the increasing complexity of our modern business life, and to differentiate between the control Government should exercise over individuals and the regulation to which it should subject its corporate citizens, chartered as they are by the State's authority, endowed with great powers and privileges which do not pertain to the individual, seeking to exchange their securities for the savings of the people, or to grant their facilities to those who are willing and able to pay for the service they may render. Creatures of the people, the State surely has the power to regulate their transactions for the protection of its citizens. Even though one bear in mind the rule laid down by the United States Supreme Court in the oft-quoted Dartmouth College case, the State clearly has the right to regulate the conduct of its corporate creatures, to such an extent at least as its restrictions are regulative and supervisory and do not extend to a denial to the corporations of the right to exercise their essential functions. Particularly is this necessary of insurance companies, since the growth of the business has been such that their operations now touch the interests of almost every family, and are of vital importance to the individual, the community and the State.

An insurance company, whether it be a stock corporation, the ownership of which is definitely vested in individuals, or a mutual company, conducted for the benefit of the policyholders alone by officers and trustees dependent upon the confidence and good will of the members for a continuance of their trusteeship, *is conducted by a few individuals* for the benefit of the large number of persons comprising the general membership. It might be said that a stock company is conducted, not for the

members, but for its stockholders, yet this is true in only a very limited sense. Irrespective of the form of control, whether mutual or stock, and the slight tax put upon the earnings for the stockholders if it be a proprietary institution, the business of life insurance is essentially mutual in its character. Its conduct is possible only because men join together—co-operate—to form an alliance against misfortune. Subject to mutual hazards, with similar interests to protect, men in life insurance mutually share the cost of furnishing protection to all, and indemnity, as it may be needed, to the dependents of each. In its essence the business is based on co-operation for a given purpose and mutuality in sharing the cost and the benefits, irrespective of whether it is conducted by the members, or by shareholders who possess a proprietary interest. The company is created, built up, maintained and enabled to fulfill its purpose of indemnifying the families of those of its members who die, solely because a large number of persons, in advance of any benefit paid, entrust the substantial sums represented by their premium payments to the small group who are actually charged with the administration of the company. The State gives to the managers of a life company great and unusual privileges, including the right to solicit and receive from countless thousands of its citizens payments made in advance for a benefit contracted to be paid after the purchaser is dead. These payments amount, in many companies, to millions of dollars per annum; in some companies to tens of millions per annum; and, generally speaking, the disbursements from the vast funds thus created are to women and children, just deprived of their natural protector, inexperienced, helpless, afflicted. There is no higher form of trusteeship than that which a life insurance company undertakes, and it is right that the trustees

of such enormous funds, contributed by so many different individuals from all sections, should be held to a strict responsibility by the Government which has authorized the inception and development of the business. The object and purpose of this regulation is obviously that Government should protect such of its citizens as are policy-holders by seeing to it that the insurance companies soliciting their patronage and contributions are maintained in a healthy financial condition; that they are honestly and prudently conducted, and that the funds collected from the people are applied solely to the purpose for which contributed. The only object which justifies the State in regulating the operations of its life companies, is the safeguarding of the interests of its citizens insured. The Government, the creator of corporations, possessing and exercising the right and the power to regulate their operations, we may properly discuss the history of governmental regulation of insurance in dealing with the principles upon which that regulation should be founded.

England is the home of the world's first regular life companies; it is the domicile of more well-established offices than are to-day transacting business in the United States; the majority of its companies were organized and had been doing business for many years before insurance became general in this country. Of eighty life offices now doing an active business in England, fifty-three of the number were organized more than half a century ago, and seven of them more than one hundred years ago. The business there, during all the period of its rapid growth here, has been conservatively and economically conducted, with complete freedom from scandal and without any such instances of infidelity to the interests of the policy-holders as have been disclosed on this side. It is true that conditions have differed. The business in England has



been of gradual and steady growth among a conservative people. Here—particularly in the last quarter century—its development has been so great that we can scarcely comprehend what the figures mean when we recite the amount of business now outstanding. There the business has slowly developed in an ancient nation; here it has more than kept pace with the rise of a new nation abounding with natural resources and wealth, its people noted for the freedom of their expenditures and for the ample provision they seek to make for their families. That the great spread of the life assurance idea in America should have led to conditions different from those existing in a land where its growth has been more gradual, is not a matter of surprise. But the character of the business of the British offices, which now have in force over a billion pounds of outstanding assurance, protected by assets valued at more than three hundred million pounds, and which has been so generally conducted with a singular devotion to the interests of the policyholders, leads us to inquire what part governmental regulation has played there in fostering the development of the business through the protection of the interests of the insured.

The answer to the inquiry is a short one. In Great Britain a charter for a life company can be procured without too great difficulty; no permanent deposit is required to be made with the Government; there is no statutory standard of solvency to be observed; there is not imposed on the companies the use of any given table of mortality or rate of interest; there is no department of government charged with the supervision of assurance companies, or authorized to examine them; and, in fact, there is *complete freedom from governmental control of the details of the business*, the sole requirement being that each company shall, once in five years, file a valuation and de-

tailed report of its business with the Board of Trade. This is published in the Blue Book; and in making its valuation, each company has to declare the basis upon which it figures its reserves—the mortality table and rate of interest used—and make an exhibit of its financial condition accordingly. In other words, the English Government relies solely for the proper regulation of its life assurance companies upon *publicity*, and the force of a competition which, both following and anticipating publicity, leads to a healthy rivalry to see which company can show the best returns to policyholders. Doubtless also reliance is placed upon the integrity and fidelity to their stewardship of the managers of the companies, a reliance justified not only in England by the sound management of the companies and the fair dealing which has characterized their relations with their members, but as well in the United States by an honest, prudent and faithful administration of the funds and affairs of the great majority of our companies, which has been but emphasized by the disclosure of different ideals of management in a few conspicuous instances.

The statutory provisions covering the operations of life assurance companies in Great Britain, since the adoption of which they have been particularly free from cause for criticism, are embodied in the "Life Assurance Companies' Act, 1870." The framers of the Act aimed at allowing the companies full freedom in their conduct of the business, while compelling them to make public the result of their operations, *believing publicity would do more to secure sound management than any other method which might be adopted.* The provisions of the Act were wisely founded on the preservation of corporate initiative and scope of administration adapted to the circumstances of each company, while demanding the publication in sys-

tematic form of the methods adopted and the results achieved. It encourages both freedom of enterprise and publicity of record, such publicity enabling the public to withdraw its confidence and refrain from membership if the official returns disclose reason therefor. As an English authority has well said:

"The authors of that Act displayed a sound and sagacious judgment and appreciation of the true basis of British commercial enterprise when they scrupulously adhered to the maintenance of *corporate liberty of organization and method* with the public declaration of such prominent details as would enable an opinion to be formed upon the practical wisdom and judiciousness of administration."

Thus regulation in Great Britain has taken the form of requiring publicity only, leaving the trustees free to conduct the details of the business as they will, so long as they do it in the open; and leaving the public, unguided by any government certificate of solvency or character whether of great or little value, charged with the responsibility of protecting its own interests through inquiry, through judgment based on the published reports and the exercise of an intelligent discrimination and selection. The public has protected itself far better under this system than the State can protect its citizens through paternalistic methods.

Governmental regulation in the United States has taken a very different form, and the situation has been rendered much more complex owing to the fact that the Federal Government has never exercised jurisdiction over interstate insurance transactions (not regarding them as falling within the constitutional definition of interstate commerce), and has left the individual States to control the operations, not only of their own companies, but of all the companies doing business within their borders. As most of the well-established companies do business in

practically all the States, and as a corporation of one State lacks any inherent right to transact business within the other States, but can enter them only as a matter of favor and grace upon complying with such requirements as to admission as may be exacted, it follows that our companies are subject to and must, to do business throughout the United States, be governed by the regulations of fifty different State and Territorial Governments, whose rules of control and of taxation are by no means uniform.

Then, on the whole, a line of regulation quite dissimilar to that followed in England has been adopted in America. The States have established statutory standards of solvency, requiring that the assets of a life company should at all times at least equal the net value of its outstanding policies (such net value being the difference, according to the stated Table of Mortality, between the aggregate net single premiums for the sums insured at the then ages of the insured and the present value of all net premiums thereafter receivable on the policies outstanding, in accordance with the same Table of Mortality). This standard of solvency has possessed no magic to keep any company from actual insolvency, and in conspicuous instances has served as a hard and fast rule to destroy organizations whose so-called "legal reserves" were temporarily impaired, yet which were not only able to meet all current liabilities, but were in such a condition that, treated by a more flexible rule, their reserves could have been restored and the companies maintained as going institutions—to the great benefit of their policyholders, whose insurance was in fact destroyed through unnecessarily enforced liquidation.

The adoption of a statutory standard of solvency has been accompanied in most States by the creation of an

Insurance Department—a bureau of Government charged with the duty of supervising the operations of all insurance companies operating in the State, and armed by law with the power to make an examination at will of the affairs of any company doing business within its borders. The next step toward State regulation of insurance has been the appointment as head of the Insurance Department, not of some man capable, owing to familiarity with the business, of really conserving the interests of the policyholders through an intelligent supervision, but usually of some politician or party worker, to whom the “job,” with its salary, is given as a reward for “loyalty to the organization”.

The result of this mode of selecting men for the office of Commissioner of Insurance has, in most instances, been a mere perfunctory performance of its duties. The power to examine companies has been abused rather than used. When the examinations were made in good faith, they were directed chiefly to a verification of the company's last annual statement, and did not go into the question of character of management. Though directed to the ascertainment of solvency alone, the report frequently, in terms, was a certificate of good management. The effect of such reports was to lull the public, through dependence upon official indorsements, into a sense of security. Thus, to an extent, State guardianship has been allowed to usurp the place of responsibility and control by the parties actually interested. Such guardianship, largely ineffective, injures rather than benefits the policyholders, for, relying upon it, the members do not investigate and study the operations of their companies. They accept the license or report issued by the State as a certificate of character, leave it to the State to do their thinking for them, and as a result lose the advantage of actual

knowledge and the intelligent discrimination which follows it. The method is injurious to the real interests of the citizen, which is always the case when government attempts to do for an individual what that individual should do for himself.

The power to examine, moreover, has on many occasions been used by unscrupulous officials "for purposes of revenue only," and the instances are well known where officials of distant States have visited cities where were located many companies, both life and fire, and made a pretence of "verifying the last annual statement" for "the protection of policyholders residing in our State." These "verifications" were of a most casual nature; half a dozen of such so-called examinations were often conducted concurrently, the representative of the distant State spending a few hours only in each office. The expense of these examinations was of course collected from the companies, and was usually regarded as an individual perquisite by the examiner or the Commissioner he represented. It consisted of a very liberal per diem for the examiner and his assistant, their hotel bills, and mileage from the distant State to the place of examination.

The mileage and hotel bills were, with the charges for "services," presented to *each* of the companies "examined" on such a trip (even though the expense was actually only incurred once), and any question concerning the payment of the bill was met by an immediate threat to revoke the company's license in the given State. This was State "supervision" at its worst, and it may be said, for the credit of the States, that this particular form of "regulation" is less heard of now than it was a few years ago. It is significant, however, taking supervision at its best in the United States, that the statutory standard of solvency has been "useful" chiefly in forcing into liquidation com-

panies intrinsically solvent; that State supervisors have given the public no protection or warning against companies actually being mismanaged—and that the various States and their officials, with the power at hand for years past to thoroughly examine any company doing business within its borders, never in any way discovered or warned the public against the evils which were recently laid bare in an examination conducted by a Legislative committee.

The expense of the maintenance of all these numerous State Insurance Departments and of the examinations which they make is collected from the policyholders, through a direct charge on the companies in some instances for the expense of the investigations, and otherwise through taxation. There are Insurance Departments in a considerable number of States which are efficiently conducted, and which render some real service to the policyholders; yet, taking State supervision on the whole, as it has existed in the United States, has the protection afforded the policyholders through it been worth what it has cost them? Has it been justified by the results? Another answers:

“Have failures been prevented and losses avoided? Has it been impossible for fraudulent assessmentism to flourish and count its deluded and disappointed victims by the millions? Has not the State invariably yielded to the clamor of promoters and their expectant victims, and put its broad seal of approval upon impossible schemes of insurance, inevitably certain to bring disaster? Has it prevented the misapplication of trust funds and their diversion from those to whom they belonged? Has it promoted equity, scowled on discriminations, rebuked extravagance, condemned nepotism and denounced self-adjusted salaries? Has speculation in trust funds been prevented? We know the things existed in some companies, and we place the responsibility for them *squarely upon the State, where it belongs*, since the State has undertaken



a guardianship which I will not say it could not better perform, but which will never be adequately performed *until those interested perform it for themselves.*"

Like the poor, however, State supervision will doubtless always be with us, and the most that can be expected is that the Insurance Departments of all the States will emulate the example of those most efficiently conducted to-day, and that, out of the present confusion of statutory and departmental regulations (varying as they do in the different States) may come a degree of uniformity, followed by a co-operation between the States, so that one may not duplicate the work of another, as in examinations, etc., except for some special and controlling reason. It is also to be hoped that state insurance officials will confine their activities to their proper province of seeing that the companies obey the laws and so openly conduct their business with an efficient accounting to the policyholders that the public can intelligently protect its own interests; and not attempt, as has been done in some cases, to interfere with company managements and dictate how the details of the business should be conducted.

With this review of the object and history of regulation, it may be pointed out that heretofore no efficient publicity or actual accountability for surplus funds has been required in the United States. There have, it is true, been many of our old companies which have voluntarily made annual accountings to their policyholders, and concerning whose management there has not—shall we say as a consequence?—been any substantial criticism uttered. Yet, in the past, the companies prudently, conservatively and honestly managed have not done as much business as other companies which refrained from annual accountings to their members, and in whose conduct extravagant and

improper methods of management have been recently disclosed. In fact, the companies which were actually doing least for the individual policyholders were most largely receiving the patronage of the public. The reason for this is that the poorly managed companies have been able to conceal the fact through lack of publicity and accountability, and through extravagant expenditures thus concealed have been given an advantage in the hiring and compensation of agents. With annual accountability enforced of all companies, the results in each, as to cost and surplus earnings, would be clearly known to every individual who cared to inquire. In no business is there sharper competition than in life insurance, and with publicity and accountability enforced the law of self-preservation would require every carelessly managed company to mend its ways, for failing to do so its results would fall below those of its rivals, and it would lose the confidence and patronage of the people, who, with publication of methods and results required, will never be as blind about insurance matters hereafter as in the past. Fostered by publicity and annual accountings, competition in life insurance will no longer be directed toward size or rapid growth, but there will certainly be a *competition in economy*, to see which company can give insurance at the lowest cost to the policyholders; and under such competition there would, through the outworking of a natural law, be a reduction of expenses to as low a point as efficiency and experience would warrant, without the damage which may follow an attempt on the part of the State to interfere with freedom of management in its details.

Consequently we hold that *the fundamental principle upon which all sound governmental regulation of life insurance companies should be based is the requirement of complete publicity concerning their operations, accompa-*

*nied by a detailed and frequent accountability for all surplus and other funds.*

Let the State require of all life insurance companies the utmost publicity concerning their management; let it insist upon all their transactions being carried out in the light of day; let it demand of the trustees a regular and public accounting for the funds entrusted to their care, and you then enable the policyholders to readily ascertain whether their company is being properly conducted, and to protect their own interests accordingly.

Last year a legislative investigation of a few great American companies disclosed the fact (scarcely to be wondered at in view of the period of growth and expansion through which their business had recently passed) that there had been in such companies extravagance, improper expenditures and other evils embodying a disregard of a faithful trusteeship. All join in condemning the evils disclosed, and among insurance men and citizens generally there is no dispute as to the general facts nor as to the necessity of making their repetition impossible. But what is the sound method of insuring such reform?

We certainly should not, by complex regulations affecting many features and details of a situation, seek to do that which can be accomplished more easily and with equal certainty by a few simple fundamental requirements.

What is necessary for thoroughgoing insurance reform is a maximum of publicity, strict accountability and a minimum of legislation.

If we refer to the statutory enactments following the recent investigation we may see to what extent the laws passed depart from or run counter to sound principle. The investigation disclosed evils—evils which had arisen in a period of forced growth, whose disclosure shocked all

men. Their occurrence was to a large extent possible only because of a lack of publicity concerning, and accountability for, the surplus funds arising under policies on which the dividends were deferred for long periods of years. The law-makers, if we can judge from the laws adopted, seemed unconscious of the truth that the mere disclosure of the facts and the deeper sense of trusteeship which such disclosure enforced, together with a consequent more intelligent attitude toward the subject by the public, of themselves rendered a recurrence practically impossible. Evil cannot thrive in the broad light of day. The majority of citizens are honest, and a dishonest man or corporation cannot permanently retain the confidence or patronage of the public. That which must be done openly, under the scrutiny of all men, will, on the whole, be done fairly and honestly. As another, a most intelligent and faithful State Insurance Commissioner, has said:

"The great remedy for whatever evils have thus far been found in insurance, or whatever evils may be found in the business in the future, lies in *full and complete publicity*. I am clearly of the opinion that more actual good has been accomplished by the publicity incident to the Armstrong Committee investigation than will ever be accomplished by the Armstrong laws, so-called, and this observation is not meant to be in any sense a reflection upon the recent New York enactments. I simply desire to emphasize my belief in publicity rather than in wholesale legislation, designed to cover every detail, as the effective remedy for evils of whatever nature."

The evils which were discovered last year had been rendered possible chiefly through the abuse of the deferred dividend plan. The obvious remedy was to require publicity and strict annual accountability under such contracts in the future. The practice of deferring the dis-

tribution of dividends or bonuses has been in common use in England ever since the business was founded, with benefit rather than injury to the policyholders. It has, or it has not, an office to perform in connection with American life insurance. Lack of accountability under it here had given rise to extravagance and grave evils. If accountability had been imposed and the plan had a legitimate place in the business, it would have survived without injury to the public; if it could not survive under a compulsory accountability it would, and should, die a natural death. Sound legislation would have given protection against the abuse of the plan, and left natural laws to determine the question of its survival. Was the action of the law-makers guided by sound principles of publicity and accountability? Not at all. The deferred dividend contract was *prohibited by statute*. This prohibition renders it impossible to safely transact certain forms of sub-standard business, thus preventing a class of citizens most needing insurance from procuring it (though it is clearly in the interest of the State that they should be able, through insurance, to protect their dependents); and as indicated, the prohibition was wholly unnecessary. It was not the deferred dividend contract which caused the evils, but the abuse of it—and accountability would have cured the abuse.

The investigation disclosed evils of extravagance, both in general expenses and in agency expense. It was the abuse of the deferred dividend contract which alone rendered such extravagance possible. The cure, through publicity and accountability, of such abuse of deferred dividends, would also necessarily, almost automatically, have put a stop to undue expenditures, for with every company required to account to its policyholders annually, showing the surplus earned on each policy, a premium

would have been put on economy, and all companies would be compelled to approximate the prudent and economical management of the most conservative, or would lose the confidence of the public through failure to give equally favorable results. Did the Legislature cure the evil by such fundamental requirements? On the contrary, it put on the statute books a limitation of the total amount any company might disburse for expenses per annum. Companies differ, among other things, in age, in size, in financial strength, in the character of the business they have in force, in standing, in reputation, in earning power, in the percentage which they have added to the net premium for expenses. The law-makers ignored such considerations, and adopted a limitation of expenses which is applicable to all alike; which bears with unequal force upon different ones; which renders it impossible that new companies should be organized; and which throws obstacles in the way of upbuilding into strong and useful institutions those smaller, younger or weaker companies now existing, whose preservation and growth the State is in reality especially interested in fostering.

There had been extravagance in the agency field. With publicity and accountability it could not exist. But was that the remedy applied? No; but for the first time in history there has been written on the statute books a law establishing for labor not a minimum but a maximum rate of compensation. The sufficiency of the provision does not for the moment enter into our argument, though it will be referred to later as indicating the practical, as well as the theoretical, objections to such laws. Sufficient or insufficient, the principle underlying such legislation is unsound. The trustees and officers of life insurance companies are charged with the duty of conducting their business efficiently; a healthy growth and the steady in-

roduction of a reasonable number of new lives (the effect of which is to reduce the death rate) is beneficial to the members, and lessens the cost of their insurance. Through the limitation first of agency expense and then of total expenses, the power and discretion of the officers are taken from them, and yet they are left with the responsibility. The State should either leave both the power to manage and the responsibility of management with the officers of the company, safeguarding the interests of the public through the requirement of adequate publicity and accountability, or, if it desires to exercise the power of controlling the details of the business, it should itself assume the responsibility as well.

To deal for a moment with the merits rather than the principles of such regulation, the provision made for agency expense is possibly sufficient for the great cities and for well-established companies in the thickly populated sections. Companies differ in very many respects, however; and what would be sufficient for a company of size and fine reputation, which has been doing business in a given territory for, say, half a century, which has thousands of satisfied policyholders therein, and which, accordingly, finds it comparatively easy to procure new business, may be wholly insufficient for a company perhaps in every way just as good, which is new to that particular field, and lacks history or policyholders in that community. This is true of companies of equal merit, but with different histories in the given field, and the inequality is more marked when we consider the case of the smaller, weaker, or younger companies, which it should be the purpose of the State to preserve—not destroy.

Territories, as well as companies, differ; and a compensation which may be adequate in cities like New York



or Chicago, where an agent has opportunity to write a great deal of business, may be wholly insufficient in the sparsely settled agricultural districts, where there is but a limited amount of business to be procured in any event, and where the agent must travel long distances, at much expense of both money and time, to get even that. It is, in fact, the general opinion of conservative insurance men, who are quite in sympathy with the demand for economy, that this measuring of all companies and all territories by the same yard-stick of expense, will result in the loss to the companies of some of their very best and most persistent business, namely, that arising from the agricultural communities, and in the loss to the State which must necessarily follow the failure of any class of its citizens to make provision for their dependents.

Again, some of the companies, through the deferred dividend plan, had built up large surplus funds, for which they were not held to any strict account. Evil had followed, due to the absence of accountability, the enforcement of which would have cured it. The Legislature again ignores the obvious, and for the first time in history we find the State *legislating for instability*. The history of all regulation of fiduciary institutions shows government making provision to insure the absolute security and solvency of corporations receiving and contracting to safeguard the surplus earnings of the people. In recent legislation, however, we find one of our States, greatest in population and wealth if not in legislative wisdom, defining the maximum surplus or contingency reserve which a company shall maintain. Never before has the State attempted to take all discretion from the managers of its corporate creatures and actually legislate for weakness and insecurity through a limitation of the amount of surplus funds which a company may accumulate. The

evil arising from large surplus funds held free from accountability could have been promptly cured by fundamental legislation as already indicated, and by the adoption of a sound method of taxation; but the principles which should govern regulation seems to have been wholly ignored, and a "short cut" attempted which improperly impairs the discretion of managers and is an infringement upon the security of the policyholders. It is far more important that insurance should be absolutely secure than that the individual member should receive a dollar or two extra in dividends.

Thus, if we carefully study the principles upon which regulation should be founded, it would appear that the State, in recent legislation, had adopted a cumbersome, arbitrary, paternalistic and dangerous method of accomplishing needed reforms, which could better have been made effective by a few simple requirements directed at the fundamentals of publicity and accountability.

The law-makers have seemingly overlooked the fact that integrity and fidelity to a trust can no more be created or guaranteed by statute than can the fidelity of the citizen to his marriage vow be enforced by legislative enactment. What is wanted is not more legislation, but more character; not statutory restriction, but a deepening of the sense of trusteeship and such a public operation of the affairs of the companies as will not only make evil or extravagance certain of detection, but will enable the individual citizen to judge more intelligently concerning the merits of the administration of his company. Soundness and integrity of management are not as apt to be insured by the creation of statutory misdemeanors as by requiring that all corporate acts shall be performed in public. It may well be repeated, as pointed out by the Lord Bishop of Birmingham in the Commemoration

Sermon preached by him at Oxford University in June last (in speaking of the laboring classes and their apparent belief that legislative enactments covering this point or that would better their condition), that what is needed in all the affairs of life is not so much new law, or more law, or the experiments of governmental control, as character—an intelligent application of right principles to all the relations of men. That legislation affecting insurance corporations will prove of the greatest value which most deepens the sense of responsibility on the part of corporate managers, and increases the intelligent discrimination exercised by the members or those contemplating membership. Men should be encouraged to think and act for themselves, and the State can aid in developing self-reliance on the part of its citizens by the requirement of such publicity concerning corporate operations as will give to any man who uses his intelligence the power of self-protection. The strength of the State is dependent upon the character of its citizens, and the freedom of action on the part of the people in private affairs, and through that freedom character is developed, both from the lessons of attainment and from those deeper lessons of apparent failure which in a democracy are so often but the foundation stones of ultimate achievement.

No observations concerning the regulation of life insurance could be complete without reference to the demand which is being made in some quarters for a standard policy, and without calling attention to the lack of principle upon which present methods of insurance taxation are based.

There is no innovation in the line of insurance regulation more actively urged at the present moment by those lacking experience in conducting the business, and certainly no proposal for which less can be said, than the

demand for standard forms of life policies. It is argued that as standard fire forms are required, the same rule should be applied to life companies. In the case of fire insurance, there are frequently many policies in force on the same risk; the loss incurred is almost always a partial, not a total, loss; the adjustment of all the policies is usually made at one and the same time by an adjuster representing all the companies, and the many questions arising concerning the distribution of partial losses, and the pro rata payable by each of the several companies involved, have seemed to many States to justify the requirement of uniform policy provisions—so that the liability of each company may be defined by the same rule and clearly understood. In life insurance, however, there is nothing payable except in the event of a total loss (death), when the policy is paid in full; and each company adjusts its own claim independently of the others. There are no questions of partial loss or pro rata liability to arise, and the reasons which are urged for standard fire forms are wholly inapplicable to life insurance. In addition, there is no evil needing correction which demands that the State should deny to its corporations and its citizens the free right of contract. Here and there a policy has, it is true, been misrepresented by irresponsible agents, whose employment was a natural consequence of the high pressure methods lately in vogue, the misrepresentation usually taking the form of stating twenty year deferred dividend policies to be twenty year endowment contracts. The requirement of accountability under deferred dividend policies, the abandonment of high pressure methods and the discontinuance of the system of advances to agents which would naturally follow such accountability, would speedily cure such slight evils as may have existed in the matter of misrepresenting the policies

of any of the regular life insurance companies. There is in reality no evil the cure of which would not be better found in legislation directed at the fundamentals of publicity and accountability, rather than in the requirement of standard forms. It is significant that there is no demand from policyholders for any such "reform," the cry arising almost wholly from those who, having had no practical experience in the business and possessing no sound knowledge of its history or the principles and practices underlying its operation, have taken to themselves the duty of suggesting the passage of new insurance laws to legislators equally unfamiliar with the subject.

If those who urge the adoption of standard forms but had the opportunity afforded the practical insurance man of examining the policies issued by the American companies fifty years ago, forty, thirty, or even twenty years ago, and comparing them with those issued say ten or five years ago—or even of comparing the latter with those now offered, he would find that through the lessons taught company managers by experience, and through the force of a healthy competition, policy forms had become more and more liberal each year, had been framed to cover a constantly increasing number of benefits, had omitted restriction after restriction formerly enforced, until today, if the policy contracts of many of the companies are to be criticized at all, the criticism must be that they embody too great freedom from restriction, too much liberality, too substantial rewards for surrender, rather than that they fail in any way to give the policyholders full value for the premium paid. And the significant thing is that this history of improvement and increased liberality in policy forms has been *the voluntary act of the companies*, due to the guidance of experience and the force of a free competition uncontrolled by the State. Policies

are constantly being redrawn and liberalized; the development in forms has kept pace with the increasing complexity of modern business conditions, and every need for protection that has arisen has been met by changes and improvements in the life insurance contract. Not until the current year has any State sought to crystallize into exact language and put into inflexible form on the statute books policy forms which it says must be used by all its companies. A form safely applicable to all companies, young and old, weak and strong, is necessarily less liberal than that which the older and stronger companies could issue: and, in fact, in the one State where the idea has been adopted, the standard form is inferior to and less advantageous to the policyholder than the more liberal and attractive policies now offered by many well-known and conservative companies. A statute attempting to establish in one given form of words a contract which should be flexible enough to cover every developing human need would most certainly put a stop to all improvement and progress. Policy forms are now far more liberal and more fully protect the insured than were those of but a few years ago. The limit of improvement has not been reached, and *unless the State forbids further growth by the adoption of a fixed form*, the prospect of now materially reducing expense accounts will lead many of the companies to further liberalize their policies. It is fair to point out that had the State adopted standard forms of fifteen, or ten, or even five years ago, those who read these lines would not find themselves in the position of being able to secure policies so liberal and so fully protecting the rights of both insured and beneficiary, as those now freely and voluntarily offered by the companies themselves. To all who have understandingly reviewed the history of the development of policy forms in Amer-

ican life insurance, the proposition to now standardize policies will, we believe, be seen to have less to recommend it (which is saying a great deal) than any of the other "reforms" proposed.

Speaking broadly, the vast amount of insurance in munity can only be injured, not helped, by government attempting to exercise on behalf of its people functions of judgment, of discrimination and of selection in the conduct of private affairs which the citizen can better employ himself, and the use of which would strengthen and improve him. Much of the mistaken interference of government with individual affairs springs from a disregard of the unquestioned truth that knowledge comes from experience and development through the exercise (not through the non-use) of one's faculties. The very spirit of our force in our companies stands as a monument to the unselfishness of man, as an evidence of his forethought, his affection, and his realization of responsibility, for those dependent upon him. Death to the individual is an event so uncertain in the hour of its occurrence that through life insurance alone can material protection be certainly given to those who otherwise might be unprovided for. Insurance<sup>1</sup> is the most indispensable and the most beneficent institution of our day. It is a very practical and at the same time a most ingenious method of equalizing the hazards of life. To secure its protection men toil and

<sup>1</sup> In speaking of insurance, the writer refers to the business in its pure and legitimate form, under which protection is secured for one's dependents, or provision made for one's own later years. During the past quarter century excrescences upon insurance contracts have led to the creation, retention and misuse by some companies of large surplus funds, which have been pointed to as justifying a demand for taxation. These phases of the business are speedily passing, and are ignored. The true character of life insurance, its pure practice, which will be required under new systems of publicity and accountability, guided by a more intelligent public interest, are alone borne in mind in considering questions of regulation.



deny themselves the full fruit of their labor; they give up, in some cases almost the necessities, in all cases some of the comforts or luxuries or pleasures of life, that those to come after them may be protected from adversity and want—that children may be educated and brought up to lives of usefulness. Founded on a care for the future of others, a care which can only be exercised by present denial and sacrifice, the determination to insure represents the best and most unselfish qualities of human nature. Insurance is thrift, nobler than other forms in that it is exercised not for self but for others, imposing a present burden for a fulfilment which death alone can bring. The cost of insurance is a tax, with which man voluntarily charges himself so that he may make provision for his own and not leave his dependents to be cared for or educated by the State. Through the operation of the business of life insurance great burdens are removed from the State; widows are provided for, homes are maintained, children are educated to be useful citizens. No man can number those who, through the benefits of insurance, are saved from becoming public charges—kept from the poor-houses, the asylums, and the orphanages. Through provision made for children, which keeps them from poverty and an environment of want and temptation, who can tell how many are trained to honorable, useful lives, and saved ultimately from the criminal population and the prisons? Clearly as men more and more make provision for their dependents through insurance, the direct burden of the State in caring for the aged, the indigent, the orphaned, and the degenerate is lessened. All thrift is beneficial to the State, particularly that higher form which provides for the weak, the young, and those unable to work. The government which fosters and encourages the spread of life insurance shows but an enlightened

self-interest, and this fact has been behind much of the demand for governmental regulation and for a control which its authors have hoped would lower the cost of insurance protection, so that the public might be led to insure even more freely than at present.

Yet the State is directly responsible for a substantial addition to the cost of insurance to its citizens through methods of taxation which are unjustifiable and indefensible. When an insurance company is taxed, the extra expense which that tax involves is borne by the individual policyholders. This seems to have been overlooked in many States, which have sought to meet the expenses of conducting the Government through the taxation of life insurance companies, blind to the fact that when they tax insurance, they are merely taxing their own citizens who are insured, levying a special impost on that portion of their people who are the most thrifty and unselfish, and who are thus penalized by the State for seeking, through voluntary provision for dependents, to relieve the community from the burden and expense of caring for those who otherwise might be left destitute. The careless man, irresponsible, selfish, who makes no provision for his family, escapes this form of taxation, which is thrown wholly on those who have already taxed themselves for the benefit of their dependents—and the State. The taxation of life insurance is essentially a tax upon a tax; it discourages the making of provision for dependents by adding to the cost; it penalizes the thrifty, and is nevertheless a most popular form of raising money, though clearly against public policy and the best interests of the people.

It may be said that the companies—*i. e.*, the policyholders—should, through taxation, meet the cost of State supervision, the maintenance of governmental insurance

departments, etc. We might dwell on the fact that, inasmuch as insurance is for the benefit of the State as a whole, the cost of supervision might properly be levied on *all* citizens, and not merely on those insured; but, waiving that, and admitting that the policyholders should meet the cost of supervision, what do we find?

One who investigates the subject will discover that, with but few exceptions, each State imposes a direct tax upon the companies, in the form of a percentage of the premiums collected by them within its borders. In most instances this percentage is upon the gross premiums collected. Four States fix the tax at 1 per cent. of the premiums; four more at  $1\frac{1}{2}$  per cent.; sixteen collect 2 per cent.; one charges  $2\frac{1}{4}$  per cent.; seven collect  $2\frac{1}{2}$  per cent., and one or two even exact 3 per cent. A few States impose no tax, and in several States the tax is based on reserves, on surplus or on the amount of business transacted. Then, in addition, many of the States have on their statute books a so-called retaliatory law, which has been well described as "a relic of barbarism", and which is the product of legislation founded on no principle which could be seriously discussed among thoughtful and civilized men. Retaliatory provisions operate in this manner. One State taxes insurance companies say 1 per cent. of the premiums collected therein; but it provides that if other States should tax at a higher rate companies of the first State, then the latter in turn will tax companies of the second State at the rate imposed on its own companies there. The theory on which these provisions were enacted evidently was that they would tend to reduce the taxes charged by other States. In this object they have failed, and the State which has thought that a tax of say 1 per cent. has been all that should properly or equitably be charged life companies, has found itself in the position

of actually collecting a tax of say 2 per cent. or  $2\frac{1}{2}$  per cent., with no more justification than that it proposes to do a wrong within its own borders because some other State first sets it the example elsewhere. If sound principles were applied to insurance legislation and taxation in America, certainly every retaliatory law now in force would be repealed, and most tax laws modified.

A few instances alone will show that present insurance taxes are not imposed merely to meet the necessary cost of supervision.

In 1905 the receipts and disbursements of the State Insurance Departments named below were as follows:

	Receipts.	Disbursements.	Excess of Receipts over Disbursements.
New York ...	\$288,990.35	\$152,814.99	\$136,175.36
Wisconsin ...	572,778.95	19,717.92	553,061.03
Ohio .....	1,004,932.99	38,818.42	966,114.57
Michigan ....	445,818.49	14,034.32	431,785.17
Texas .....	329,992.00	16,019.00	313,973.00

These States have been taken at random as illustrating a situation which exists in practically all, namely, that government regards the business of life insurance as a proper source of revenue from which to provide for many of its general expenses. Such an attitude must necessarily be founded on a superficial comprehension of the importance of the business to the State and the benefit which through insurance accrues to its people. Take a State which levies a tax of  $2\frac{1}{2}$  or 3 per cent. on the gross premiums collected within its borders—it simply requires each of its citizens who desire one hundred dollars' worth of life insurance to pay \$2.50 or \$3.00 per annum for the privilege of being able to purchase it; it makes an arbitrary and substantial addition to the actual

cost of insurance, and compels the company to collect it annually from the policyholder, on the State's account, something which the individual does not realize, as it appears simply as a part of the premium.

In 1905 the life insurance companies doing business in New York State paid out for insurance taxes, licenses and fees almost seven and one-half millions of dollars.

Thus, while the State is constantly urging legislation designed to reduce the cost of insurance to the public, and so seemingly realizes the benefit which must come to its people as a whole through the extension of the life insurance business, we find it with a strange inconsistency making a direct, unnecessary and unjustifiable addition to the cost of insurance, which, even should we deduct the cost of State supervision, now amounts, in the case of merely that group of companies doing business in New York State, to over \$7,000,000 *per annum*. The reduction in the cost of insurance to the policyholders, which the State could promptly effect through refraining from taxing this form of thrift, would amount to more than any economy in general expense which can possibly be enforced by statute. Freedom from taxation would bring about an immediate, certain, and easily measured reduction in cost, without any possible injury to or interference with the business, while limitation of expenditures by legislation promises no certain result, and may even lead to an actual increase in cost, through an impairment of efficiency. If the normal growth of the insurance business be not checked by restrictive legislation, and if the rates of taxation remain as at present (they have been steadily increasing) the policyholders will in the next ten years pay the State governments more than *one hundred millions of dollars* in taxes. It is not to be believed that people realize the addition Government is thus unneces-

sarily making to the cost of life insurance, or the extent to which the burden of taxation lessens the returns which could otherwise be expected under their policies. The sums now annually collected from the companies as taxes would, if applied to the purchase of insurance at the average rate of premium, pay for additional insurance for present policyholders and their beneficiaries to the amount of two hundred millions of dollars. The moment the public fully appreciates these facts we may expect a demand for a more intelligent and less burdensome system of insurance taxation.

I have said that any evils which have existed in the business have arisen from lack of publicity concerning, and accountability for, surplus funds. Fundamental legislation on this subject will render the recurrence of evil impossible; but if, as some allege, there be danger in the accumulation of large surplus funds, their maintenance at a reasonable figure and the prompt distribution of moneys accumulating in excess of a proper margin of safety, would be further encouraged by levying any tax imposed on insurance solely on surplus withheld from distribution. The premiums—the cost of insurance—should not be taxed; the reserves required by law to be maintained for the security of the business and the fulfillment of all contracts, should not be taxed. If taxation of insurance is to be justified at all, then let it fall upon any funds held by the companies in excess of the minimum necessary to enable them to fulfill their obligations. A man's surplus money, held for him by an insurance company, may perhaps be taxed like his other property; and certainly if insurance taxation were based solely upon surplus funds withheld from distribution, the companies would not find it profitable to maintain a greater surplus than prudence and safety required, and the danger, if any,

of such accumulations would be minimized. In the interest of the State, all burdens and additions should be taken from the price paid for insurance—the premium, and the companies should be encouraged to further reduce the cost by the declaration of prompt and liberal dividends. Both objects could be best secured by repealing all premium taxes, and basing insurance taxation solely on surplus funds withheld from distribution.

In conclusion, this summary of the views herein expressed is submitted for your consideration.

1. That governmental regulation of life insurance, aimed to best protect the interests of the public, should be along such lines as will most surely lead the public to form and follow an intelligent judgment concerning the business and its conduct by individual companies.

2. That sound regulation should encourage individuals to think and choose, and not lead them to depend on the State for a semi-guardianship which can never be satisfactorily fulfilled.

3. That to this end what is required is detailed publicity concerning the operations of the companies and a strict accountability for surplus and other funds.

4. That laws under which the State interferes with details of management, or dictates methods of operation, are:

- (a) Unnecessary, because the end of good management sought can be more simply and more certainly attained by other methods.

- (b) Unsound, because government should not aim to do for the individual what the individual can do better for himself, and because, with legislation governing the fundamentals of publicity and accountability, the evils which have led to the demand for interference in details will be cured by the almost automatic operation of natural



forces—the laws of progress and the effect of competition—which are always to be preferred to arbitrary restriction.

5. That all so-called retaliatory tax laws should be repealed; and that all laws imposing taxation upon life insurance should be so amended that insurance should be taxed, if at all, only to the extent necessary to meet the cost of government supervision; this tax to be levied solely on surplus withheld from distribution (not on reserves or premium income).

## THE REGULATION OF INSURANCE— DISCUSSION.

FRANK E. HORACK: Without entering into the constitutional or legal difficulties to be encountered and overcome before the organization and government control of insurance companies by the National Government can become a reality, I want to emphasize what in my opinion would be the chief advantages of such organization and control.

The fact that the insurance companies themselves are working toward this end is not necessarily against the proposition. Government control will undoubtedly benefit the insurance companies by giving them a uniform and simplified organization. This must mean a considerable economy in management over the present system. Moreover, I believe that if means are found to bring the insurance business within the power of the National Government, it will hasten the movement for the organization and control, or the control at least, of industrial and business corporations engaged in interstate business.

The insurance business is only one of the great enterprises conducted in corporate form in this country which must sooner or later come under the surveillance of the National Government. President Roosevelt urged national legislation for corporations engaged in interstate commerce in his first message to Congress and this year at the second session of the 59th Congress he again calls attention to the need of securing Government control of those great corporations the operations of which are confined to no one State. The impossibility of securing uni-

form legislation by State action is apparent to anyone who has given the subject the slightest thought.

In my opinion all of the arguments urged in favor of organization and government control of insurance companies may well be applied to all the great corporations engaged in interstate commerce. To sum up briefly, the advantages of Government organization and control are:

1. It will give such corporations a uniform and simplified organization.
2. It will make possible a uniform line of court decisions respecting the powers and duties of such corporations.
3. It will be one of the most efficient means of checking the evil of overcapitalization.
4. It will give better protection to policyholders and to stockholders, particularly in giving them information as to who their associates are.
5. It will give American companies transacting business abroad a better standing, as well as better protection.
6. It will check excessive profits and reduce the cost of insurance.
7. It will put a stop to the disgraceful traffic in corporate charters for the sake of the fees which the corporations willingly pay for immunities.
8. It will raise the standard of corporation legislation in this country on a par with that of England and Germany.

W. G. LANGWORTHY TAYLOR: Life insurance is not at all a gambling business, for its purpose is beneficial and its legitimate receipts and expenditures are less subject to fluctuation than those of perhaps any other business. But the endowment feature does not come in along with regular insurance for this praise. It is a gambling

on one's own survival and on the inheritance of the property of those who die before.

The social danger in life insurance, as recently conducted, lies in the collection of an excessive quantity of assets which are not subject to withdrawal for very long periods and are hence an enormous temptation to unfaithful stewardship. It is the endowment feature which has enabled the heaping up of these exaggerated funds.

The soundness of our financial system reposes entirely upon the great banking principle of payment on demand. It is this principle which regulates the flow of capital whither it is wanted, and capital not subject to its operation is an open invitation to promotion, with all its evils. All credit should bear a bank guaranty. In that case someone always has a string attached to it that he can pull at a moment's notice, *i. e.*, the guaranty can be called each moment.

At the best, life insurance involves the holding of considerable funds. The state is not adapted to this rôle; but may well encourage publicity, and there is no economic reason why the general government should not coöperate with the several states to this end. To be sure, insurance is not "commerce," because it is an operation of financial guaranty; but the lawyers are now arguing that it is "commerce"; and, if they want it so,—why, let them have it so!

FREDERICK A. CLEVELAND: Advocating publicity, Mr. Johnson, in his excellent paper on "The Principles which Should govern the Regulation of Life Insurance Companies," contrasts the almost complete absence of regulatory acts in Great Britain with the voluminous State insurance legislation in the United States, and concludes that the one provision—"publicity"—in Great Britain

has given a complete solution of the problem of regulation, while America with all her statutes—inquisitorial, restraining, and mandatory—has been periodically wrapped in scandal, and both policyholder and insurance company have suffered greatly from an inefficient form of control.

The conclusion reached by Mr. Johnson seems to be well supported by experience, not only by the experience of insurance companies, but also by English practice with respect to every form of corporate activity and executory trusteeship. From his reasoning, however, he has omitted an important feature of the English statute law, viz.: the provisions of the "Companies Acts", requiring the independent audit of all corporations registered under the act of 1862 and the specific acts requiring the audits of savings societies, friendly societies, railway companies, water, gas and electric lighting companies, etc. While the act of 1870, regulating life insurance, did not make obligatory the appointment of independent auditors by stockholders (or in mutual companies, by policyholders), and the Companies Act of 1890 includes only such insurance companies as were registered under the law of 1862, the defect in the law is effectively cured by an enlightened public opinion requiring financial statements to be certified to as a basis of credit and public faith.

The provisions and practice above referred to are the result of losses and scandals which occurred in the early part of the eighteenth century. Between 1840 and 1870 Parliament had enacted numerous measures for the protection of stockholders and other investors, an essential principle of which is as above indicated. As the representatives of stockholders and beneficiaries, these auditors were given access to all books, records, and files

kept by the officers and trustees of the company and are held civilly and criminally responsible for the truth of financial statements made. Such companies as do not specifically come within the statute find it to their advantage to have the certificates of auditors on their statements.

The contrast between the English method of control and the American is pointed. England throws the primary burden of control on the stockholder or beneficiary, and by law provides the means necessary to its enforcement. In the United States we have followed the Continental practice. We have assumed that the Government is the guardian of the stockholder.

Let us look more closely to the practices of companies which have been made the subject of criticism and consider whether or not these practices come fairly within the purview of public regulation, or if so, whether the public officer is the one to apply the remedy. The causes of complaint may be summarized as follows: (1) There was no adequate method whereby the administrative officers of the company might know whether all of the income accruing to the company had been realized, and consequently no adequate administrative control over the collecting agents; (2) there were expenditures amounting to millions of dollars per year over which the company itself provided for no adequate audit, or effective accounting control; (3) in some instances, even such audit as was provided for by the company was from three to four years behind—i. e., the insurance companies were doing just what the United States Government is doing to-day, viz.: paying claims against them, then auditing these claims later, seeking to hold the disbursing officer responsible; (4) as a result there

has accumulated on the books as "unadmitted items" hundreds of thousands of dollars, which, though stated as assets under the head of "due from agents," were lost to the company and thereby were diverted from possible use as dividends; (5) supplies amounting to hundreds of thousands of dollars per annum were purchased at exorbitant prices, and in some instances at least with collusive intent; (6) salaries were arbitrarily raised far above the value of services received; (7) there were loans to friendly interests at rates below the market, in the form of call loans and deposits; (8) there was subversion of funds by agents for private or improper purposes; (9) there was lack of co-ordination between different departments of the service and the consequent loss in administrative efficiency; (10) there was lack of intelligence on the part of those in positions of official responsibility as well as on the part of the board.

The present trend of legislation is to add more restrictive and mandatory legislation to that which has already proved ineffective. The best regulation possible to business is to place in the hands of parties in interest data which will enable them intelligently to judge as to the manner in which the affairs are being managed. This can best be done by means of a compulsory audit by a representative of the proprietors and beneficiaries—by one who for purposes of examination and report is made superior to the officer and trustee. The necessity for making an audit compulsory is to insure that the report shall go to the real parties in interest instead of being buried in the archives of state or concealed from view by the officers whose acts are being reported. The necessity for making the auditor civilly and criminally responsible is to make responsibility for an examination so great that



one not trained to this character of advice cannot afford to take the risk of certifying to statements of financial condition and current operative results. By requiring an independent audit of statements of affairs under such penalties and liabilities, and subject to review by officers of state, both public and private control over insurance companies may be made most effective.

FREDERICK L. HOFFMAN: The address of Prof. Robinson before this Association marks an important step in the advance of insurance science as a branch of economics. The observations, on the whole, are sound and in conformity to the facts, and the address illustrates forcibly the value of independent and impartial research work in practical economics. The scientific study of insurance has been almost completely neglected by economists, with the exception of the valuable monograph of Mr. Allan H. Willett, and the occasional discussion of its social aspects and importance by Prof. Ely, of Wisconsin. A very promising field lies open to anyone, but no more serious error could be made than to assume that all the knowledge and wisdom respecting the business is to be found in the Report of the New York State Legislative Committee, or in the Report of the Special Committee of the Legislature of Wisconsin. Insurance has a large literature and most interesting history, but few trained minds in economics have given the matter serious concern, and the subject awaits the coming of the master mind which shall successfully differentiate the sound theory from the unsound, and the valuable material from the worthless. In no direction, perhaps, is the value of special research work on the part of trained economists better illustrated than in connection with the constitutional aspects of the problem of Federal supervision of

insurance, or the specific question whether, under our Constitution, insurance is commerce or an element of commerce within the meaning of the Commerce Clause. Now, while there has been much discussion upon this point, there has been practically no research work to establish with accuracy the point of view of the early American statesmen from a study of the works of Hamilton and Wilson, the early American State Papers, the debates of Congress, etc., not to speak of the much-neglected field of the actual practice of ancient and modern commerce and navigation.

Much valuable material will be found in the early dictionaries of commerce and dissertations upon the Law Merchant; maritime law and custom, and even international law, contain much that will prove useful and suggestive. In other words, there is urgent need of a comprehensive inquiry into our political and commercial history, to ascertain whether or not in the early debates and discussions, insurance has been considered an element of commerce in the same sense as bills of lading and bills of exchange. It is to be hoped that some earnest student of economics will take up this question and produce a work useful for practical purposes and an aid in the successful solution of the pending problems, of the relation of insurance to the State.

Not much good, however, is likely to result until the whole subject of insurance is included within the scope of university education and until the science of insurance is taught in the same manner as other applied sciences are now being taught in our great institutions of learning. An excellent beginning in this direction has been made in Germany by the establishment of an insurance seminary at Göttingen, Germany, under Prof. Lexis, and of an insurance course in the Commercial High School at

Cologne under Prof. Moldenhauer. In so practical a country as America, it is difficult to understand why insurance has not long since attained to the dignity of an applied science and been taught as such in our universities. By such teaching I mean more than the actuarial branch of the business of life insurance, for I would make the instruction include every department of the business, or, in other words, insurance science in the true and complete sense of that term. The division is natural into different sections—such as, first, the economics and theory of risk and insurance; second, the history and literature; third, the law of insurance, both private and administrative, including State supervision and control; fourth, the mathematics of insurance, or the practical application of the doctrine of probability; fifth, the finance of insurance, including the doctrine of interest; sixth, the administration of insurance companies, including the science of accounting; seventh, insurance medicine, including hygiene and the diseases of occupation; eighth, the business of insurance in practical life, or its social aspect, including statistics, comparative experience, social utility, etc.; ninth, insurance technology, including insurance engineering, prevention of fire waste, etc.

If some such comprehensive plan were introduced into one or more of our leading universities, in place of the present more or less inadequate method of instruction, and if the co-operation of the companies were enlisted, to secure material and data, literature and forms, etc., the step would mark the beginning of a new era and the result would be to substitute facts and truth for error and guesswork, and the benefit to society and the State would be incalculable.

LEWIS A. ANDERSON: The last speaker (Mr. Johnson) has spoken at considerable length about publicity, limiting himself, however, to general principles. I would like to ask him one or two specific questions.

First, would he be willing to publish the dividend factors used by his company?

Second, would he be willing to put into the policy a table showing how much was collected to defray expenses of management, how much was collected for *cost of insurance*, and how much was set aside each year as a reserve?

I am fully aware that my questions will meet with opposition. We had those questions discussed at the meeting of the general agents in Milwaukee and I am quite familiar with the objections that have been made against the insertion of such a table in the policy.

I would like to say just another word since the Wisconsin Investigation Committee has been referred to. There seems to be an impression current in the East that the recommendations of the Wisconsin Committee are unreasonable. I will venture to say that when the report comes from the printer some parts of it at least, will not appear as bad as the rumors that have been circulated about it. Some parts may be worse. I want to correct the statement made by my friend, Mr. Hoffman, to the effect that the Wisconsin Committee rejected everything recommended by the Armstrong Committee. The fact is that the Wisconsin Committee adopted many of the recommendations of the Armstrong Committee, and of the Massachusetts Committee as well.

Perhaps it might not be out of place in this connection to call your attention to the fact that there are three kinds of insurance investigations. First, there is the actuarial or departmental examination made by the various state de-

partments, which concerns itself almost wholly with the question of the solvency of the companies. That is to say, they value the policies and appraise the assets. If the assets are sufficient to cover all the reserve liabilities and leave a working surplus, the company is given a clean bill of health and that is the end of it.

Second, there is the lawyers' investigation which consists principally of calling witnesses to the stand to determine whether or not there have been any questionable transactions.

Third, there is the economic and social investigation which may or may not include both of the other two. Its object is to determine the economic and social efficiency of insurance. That is, to determine what is actually received as benefits for the premiums paid as well as to determine whether or not the burdens are equitably distributed among the individual members.

The Wisconsin Committee has gone deeper into the question of insurance from the economic and social standpoint than any other committee ever did. I cannot at this time discuss in detail the data gathered by our committee, but will state very briefly some of the most striking results.

First, there is an appalling amount of social waste resulting from the lapsing of policies before surrender values take effect, as well as from the heavy surrender charges imposed by many companies when policy-holders surrender their policies.

Second, the lapses appear to be by far the greatest among the small policies and this goes to show that the greater part of this social waste is borne by those who are least able to bear it.

Third, panics and hard times have considerable effect on the lapses and surrenders, especially if the policies

have been recently issued when the financial disturbance comes.

Fourth, quite contrary to our expectations and contrary to the contentions of some insurance men, the annual dividend policies were shown to be much more persistent than the deferred policies, in some cases the difference being over one-third.

Fifth, it appears that the present method of loading the premium to defray expenses is unscientific and grossly unequal as between the individual policy-holders having different kinds of policies, and for this reason the committee recommended that the companies be required to show, when the application is written, how much is collected each year for the purposes of expense, cost of insurance, and reserve. The plan is entirely feasible; it is perfectly just, for it is publicity of the most effective kind.

I also wish to say that I heartily agree with the views expressed in Prof. Robinson's paper in its advocacy of federal supervision, because uniformity in the legal requirements is highly desirable if not absolutely essential to an effective control of the business. We can never have uniformity as long as forty or fifty states legislate independently of each other to regulate the same companies.

WILLIAM C. JOHNSON: I believe it to be unquestionably and essentially true that the interests of the public—the policyholders and their beneficiaries—will be best protected, not through paternalistic interference by the State with the details of management which properly fall within the province of the directors, but by the enforcement of an efficient publicity and a strict accountability. Supervision by the State has been tried and found wanting. Although the fifty States and Territories have all attempted to

supervise the business of insurance within their borders, and possess the right to examine at will into the affairs of any company doing business with their citizens, yet not a single State department has exercised any real supervision or taken any actual steps to see that the interests of the public were protected. The grave evils in the conduct of certain companies, which were disclosed last year, did not become public through their discovery by any of the many departments of State supervision. State officials were apparently blind to conditions the very existence of which was indicated to any intelligent observer of the annual reports of some of the companies. It was not until the evils of extravagance, of graft, and of corruption became so great that they gave rise to spontaneous combustion, that supervising officials commenced to take notice of the facts. The interests of the policyholders can never be adequately safeguarded by a State supervision which experience has proved to be both deaf, and blind, and dumb, which is sometimes dishonest, usually inefficient, and which, even if conscientious, is lacking in intelligent appreciation of the situation and of the remedies which will best conserve the interests of the policyholders. With publicity and accountability required of all the companies, the public will have from year to year the means of knowing which companies are giving the best returns to their policyholders in the matter of the cost of the insurance granted; and by putting the companies in a position where through publicity and comparison of results the meritorious will attract patronage and those of lesser merit repel it, an automatic method will be provided for checking evil and for insuring an honest, intelligent and conservative management of all life insurance companies.

The past half century in the insurance business in this



country has been an era of freedom *without accountability and publicity*. It naturally led to evils which are now familiar to you all. The reaction has been so great that the trend of legislation is now toward publicity and accountability, *without freedom, i. e.*, with statutory interference with details of management. The pendulum is swinging too far, and what is really needed, what will best protect the public and at the same time lead to the greatest extension of the business along legitimate lines, is an era in which company managers will possess the original freedom, with the publicity and accountability which have not existed in the past, but upon which the public may now properly insist. The tendency is to condemn freedom and demand that the State should interfere, but freedom led in some companies to results to be condemned only because with it *accountability and publicity were never enforced*; and if the State will be wise enough to enforce the requirements just named and leave to company managers the same freedom, experience will prove the soundness of the practice of permitting the directors and officers to exercise their initiative in conducting the business for the benefit of the policyholders, and extending its benefits as experience may justify. Unorthodox as the statement may seem in this period when we hear so much clamor for legislation from those who know so little about the business, trained minds, the intelligent insurance men who for so many years have been closely devoted to the study and the conduct of the business, are keenly interested in and better able to advance those methods which will best conserve the interests of the policyholders, than any other class in the community. The end to be sought will be reached sooner and more certainly through freedom hedged by publicity, than by statutory rules, applicable alike to differing conditions

and framed by men whose sole qualifications for such work are usually their lack of familiarity with the actual conduct of the business and their sincere interest in the welfare of the policyholder. An expert has been defined as one who sees all sides of a subject at one and the same time. The non-expert mind sees but a single side, and sometimes sees that but dimly. The situation needs expert treatment, and if company managers rather than the State are left free to conduct the business, government requiring only that it shall be done in the light of day with an annual accounting to the policyholders, the public interests will be best served.

## THE RELATION OF THE PROTECTIVE TARIFF TO THE TRUSTS.

ALBERT CLARKE.

In the small town where I was raised lived an innocent old farmer called Pappy Huse. He was such a strong partisan that he thought all the ills that flesh is heir to proceeded from the opposite party. When the steamer "Henry Clay" was burned on the Hudson and many lives were lost, after hearing the report read he exclaimed, "Wal, wal, wal! What won't the Whigs do next!" In the same spirit, a few years since, nearly every man who had become habituated to thinking, or to believing without thinking, that the protective tariff is a Pandora's box of evils, readily indorsed the statement of Mr. H. O. Havemeyer that "the tariff is the mother of trusts". It is one of the ironies of fate that the trust of which he is the chief magnate should be held up on this occasion as one of the greatest offenders and that the party which was elected to reform such abuses favored his company above all others in the United States Senate.

Before long, however, the more intellectual of the opponents of protection began to realize that trusts are not wholly evil and that if they were they cannot be charged to protection, because they exist equally under free trade. Professor W. G. Sumner, of Yale University, one of the most eminent free trade writers in this country, evidently came to this conclusion three or four years ago, when he said:

"Trusts, department stores, railroad consolidations, bank unions, are cases of a general development in the

mode of industrial organization. All branches of industry fall into it. . . . It was the discoveries and inventions of the nineteenth century, especially in the fields of transportation and the transmission of intelligence, which made it possible, and then profitable, to organize industry on a more comprehensive scale."

More recently, in fact this very month, the Honorable Richard Olney, who was at different times Attorney-General and Secretary of State in Mr. Cleveland's cabinet, has made public his views upon the trusts and the causes of them as follows:

"We are living in an era of materialism—in which physical comfort and well-being, the acquisition of wealth, the promotion and expansion of trade and commerce, are of absorbing interest in all civilized states. The rivalry between them and their respective peoples is intense, and the United States and the American people join in it with a keenness and fervor not exceeded in any quarter. Among the weapons which the industrial competition has developed is what is popularly known as the "trust". It is a weapon of great potency, since in its essence and final analysis it is such a concentration of capital upon an industry as minimizes, or tends to minimize, the cost of production. Its merits in that respect are indubitable. In the industrial race for the control of the markets of the world it is difficult to conceive of any more important factor than cheapness of production of the commodities that are the subjects of traffic. The 'trust' has the further merit—one of great importance to the wage-earner—that it tends to make work and wages steadier and less liable to wide and sudden fluctuations than is possible under any other conditions. It should be added that the 'trust' has earned the right to be regarded as an economic evolution. That it is such there could be no stronger proof than that the 'trust' not only continues to exist, but to actually grow and flourish. It has encountered such a degree of popular prejudice, has been so bitterly condemned by the press and from the platform, has been such a favorite theme for denunciation by political dema-

gogues, and has been so unrelentingly harried by legislatures and by courts, that its unimpaired and even increased vitality must be deemed to be another signal instance of the ineffectiveness of artificial restraints when opposed to the operation of natural laws."

It will be observed that neither of these illustrious opponents of protection speaks of it as bearing any relation to trusts, except that Professor Sumner says, after the words quoted, that if a trust becomes a monopoly, protection may aggravate it, which I am not disposed to deny while the monopoly continues. But one great object and effect of protection is to promote domestic competition. No sooner does a business become very profitable than it invites competition. There are men and capital enough for opportunities that look promising. Theoretically, free trade would seem to offer more competition than protection, but practically it sometimes destroys a domestic industry by giving a foreign combination, which employs cheaper labor, or is aided by bounties or favored freight rates on exports, the trade which protection would reserve for the people of its own country. Thus British agriculture has been sacrificed to British manufactures, and now manufactures are suffering from similar foreign aggression. The literature of the present tariff reform movement, known as the Chamberlain policy, abounds in proofs of the destruction of British industries by the policy of free imports.

On the contrary, the United States, Germany, and France are conspicuous examples of the preservation, the growth, and the diversification of industries under the policy of protection. When companies began to consolidate the fear of monopoly led many hastily to conclude that foreign competition would become necessary to save the people from excessive prices, but the rapid growth of domestic competition soon relieved their anxiety. A

prominent illustration is found in the iron and steel trade. Not only did numerous large establishments fail to join the United States Steel Corporation, but they have enlarged their works, some of them have formed new combinations for greater strength and economy, and every year lengthens the list of new and independent concerns. The representatives of some of them have appealed to the Government not to reduce protection, for while the trusts might possibly endure, the domestic competitors of the trusts would be ground to powder. Since the tariff cannot discriminate between large and small concerns, it cannot be used as a corrective of trusts without destroying the best corrective, domestic competition. It is not apparent what consumers would gain by playing into the hands of foreign trusts in order to curb or punish or destroy the trusts at home.

For be it known that there are trusts all over Europe, some of them longer established than those in this country, and others of an international character, formed to maintain prices and apportion traffic and to share the losses resulting from efforts to capture foreign markets. In 1901 the Industrial Commission sent Professor Jeremiah W. Jenks, of Cornell University, now the distinguished president of this Association, to Europe for the purpose of making a study of the various industrial combinations there, and his report, which constitutes volume eighteen of the Commission's reports, presents a mass of information not elsewhere obtainable and which I believe no economist or statesman can read thoroughly without coming to the conclusion, not only that trusts are not caused by protection, but that they are liable to destroy the industries of any country which does not maintain an adequate protective tariff. Among his conclusions were these:

"There is little or no belief that the protective tariff is responsible for their existence. It is known that they at times use the tariff to keep their prices higher than would otherwise be possible, and that their export prices are often lower than their home prices. The tariff should be guarded so as to prevent serious abuses, but there is practically no thought of its abolition.

"As in the United States so in Europe complaints are frequently heard that the combinations sell for export at rates lower than domestic prices. The combinations do not deny the charge. They claim that they must do so if they are to export at all, and that the export business is necessary to keep their works running full time and their laborers employed. When their governments grant export bounties and the government railroads grant special low rates on export goods, as appears fully in the chapters on Austria and Germany, we might expect that they would make no effort to conceal their low export prices. Indeed, some of the combinations themselves give premiums on their goods exported."

What lines of fustian soldiers go down before the light of this knowledge! No longer can a man who would enjoy a reputation for intelligence and candor claim that our American tariffs are responsible for trusts. No longer can protective duties be charged with exploiting home consumers for the benefit of foreign consumers. No longer can any patriotic citizen wish to leave unguarded the industries, great and small, of his own country, when they are threatened with ruin by powerful combinations abroad, aided by their governments to make hostile incursions into the markets of nations with which they are at peace. No longer can even the occasional but rare abuses of privilege and power under protection be considered as sufficient cause for its repeal, especially when other and better remedies are now being enforced, and more especially when such repeal would invoke a



train of greater foreign evils which would be entirely beyond our control.

The practice of selling abroad at lower prices than are made at home is as old as commerce. A British royal commission reported upon it and justified it to Parliament within two or three years after that country had entered upon full free trade. In the U. S. Consular Reports of September, 1904, Consul Samuel M. Taylor, writing from Glasgow, says: "Manufactured steel for export is sold at from 5 to 10 per cent. less than for domestic use, and even at a greater reduction. . . . In Scotland a combination at present exists which fixes the price of steel plates for the whole of Scotland, but gives the members of the combination power to sell in other districts than Scotland at whatever prices they choose." Consul Rufus Fleming, stationed at Edinburgh, reports the managing director of an English metal working company as saying: "It is the policy of British manufacturers to maintain prices in the home market at the highest possible level and to make whatever concessions may be necessary in foreign markets." He also reports the British maker of an important machine as saying to him that he "quotes the machine to customers in Belgium and one or two other countries on the Continent at 15 per cent. less than the price made to the British." Moreover, he reports that he has "seen invoices of a British firm of steel wire manufacturers to German buyers, in which the prices were fully 20½ per cent. lower than the prices quoted to home consumers". Furthermore, he reports a well-known English writer on economic subjects, of the Manchester school, as saying to him that "the British manufacturer recognizes the inadvisability of flooding his own markets with cheap commodities, which they will require time to digest, thus deferring the period when he can supply them

again profitably, and therefore he sells the surplus to foreign countries at a loss." He added that "there is scarcely a tariff wall in existence that the British manufacturer will not climb over at such times".

The same reports contain much other evidence of the same purport, but I have no time to quote further. The conclusion from this evidence that every unprejudiced mind must draw is that the practices which have been held up to an indignant public in this country as due to protection are and long have been common under free trade in Great Britain and are there justified by the champions of that school. If our own teachers of economics will be a little more American they will save many an honest voter who has less time and opportunity for profound study from coming to conclusions which will miss the true remedies for abuses and endanger their country's prosperity, by exposing it to the rapacity of "special interests" abroad which are ever on the alert to pluck our fruits.

In conclusion I would state a few facts which are often ignored but cannot be successfully disputed: (1) It is no part of the purpose of protection to promote monopoly, but one of its greatest effects is to promote domestic competition. (2) There is no protected monopoly in this country unless it is an international trust, and such a trust can be broken or regulated by the enforcement of the anti-trust laws. (3) High prices are not caused by duties, but by the law of demand and supply. The present prices of lumber have outrun the duties by several hundred per cent., but repealing the duty would not reduce the price; it would only take revenue from our treasury and put it in the pockets of Canadian mill owners. (4) Protection existed here a century before any trusts were formed, and they were first formed abroad, where two of their chief

objects are to maintain prices at home and to invade foreign countries and break down their industries. (5) Protection is not responsible for inequalities of condition, for under it our country shows the greatest distribution of wealth ever seen. There may be abuses of it, but so there are of everything. Annually some 10,000 people are killed and 85,000 injured on the railroads, but nobody thinks of abolishing the railroads, although in many cases they are at fault. (6) With every country but one protecting its markets against our products, with combinations everywhere seeking to exploit us, with powerful governments aiding them by export bounties and low freight rates, with labor paid here from two to six times the wages paid in competing countries, with ocean freight rates now so much reduced that they no longer afford much protection, and with the same evils of combination under free trade that are so much complained of under protection, where is the economist who would advise throwing down or much reducing our tariff walls and exposing our country to the scrambles of what Thomas B. Reed called "a beaten world"?

## THE RELATION OF THE PROTECTIVE TARIFF TO THE TRUSTS.

BYRON W. HOLT.

The one essential element of a trust is a monopoly. We cannot have a trust without some kind of a monopoly. Neither a combination, nor a chain of department stores, no matter how big, can ever become a trust, unless they have special privileges and enjoy some form of monopoly.

Monopoly, then, is the mother of all trusts, though not all monopoly combinations are trusts.

While the tariff is only one of several monopoly-producing factors, yet it is to-day, in this country, by far the most important factor in producing the hundreds and thousands of industrial combinations popularly called trusts.

While other special privileges, such as patents, trademarks, etc., might, in some instances, have resulted in trusts, yet it is reasonably certain that even this class of trusts is to-day more numerous and stronger because of the tariff. The tariff has also greatly strengthened many of our natural monopoly trusts, such as those of iron ore, coal, lead, borax, etc. Many of these trusts would never have been born had not there been a tariff to prohibit the importation of the products of foreign mines, except at artificially high prices. Not only is the tariff the most conspicuous, if not the greatest, special privilege in this country, and not only does it result directly in producing more trusts than all of the other factors combined, but indirectly, it is largely responsible for much of the evil in the trusts of which it is not the primary cause.

All things considered, it would appear that Mr. H. O. Havemeyer, the president of the Sugar Trust, was not far from the truth when, in 1899, he told the Industrial Commission that "The mother of all trusts is the customs tariff bill". We should not, however, fail to note the qualifications which he stated:

"The existing bill and the preceding ones have been the occasion of the formation of all the large trusts with very few exceptions, inasmuch as they provide for an inordinate protection to all the interests of the country, sugar refining excepted. Economic advantages incident to the consolidation of large interests in the same line of business are a great incentive to their formation, but these bear a very insignificant proportion to the advantages granted in the way of protection under the customs tariff."

I do not know that I can state any more clearly and concisely than did Mr. Havemeyer some other general truths which have not, as yet, received proper consideration by the public:

"The tariff bill clutches the people by the throat, and then the governors and attorneys-general of the several States take action, not against the cause, but against the machinery which the people employ to rifle the public's pockets. . . ."

"I repeat that all this agitation is against merely the business machinery employed to take from the public what the Government in its tariff laws says it is proper and suitable they should have. It is the Government, through its tariff laws, which plunders the people, and the trusts, etc., are merely the machinery for doing it."

It ought not to be necessary for me to waste a minute of my time trying to explain to the members of the American Economic Association how a tariff, by restricting the field of competition; encourages and promotes industrial combinations and how it, after they are formed, fosters

and protects them and enables them to control prices within certain limits. Such a primary economic fact should appear as an axiom to educated and logical minds. However, as I do not wish to beg the question, and as some educated and apparently logical minds not only do not accept this fundamental fact as an axiom, but dispute its truthfulness, it is necessary for me to waste a few moments of your time in kindergarten economics.

Is it not obvious that it is easier to form a national than an international trust? To form a state than an interstate trust? Other things being equal, the smaller the territory circumscribed by a tariff that shuts off outside competition, the more likely it is that the competitors inside of the tariff wall will get together to regulate prices. With nine-tenths of the possible competition excluded by a tariff it is comparatively easy to stop competition on the part of the remaining tenth of the competitors. To illustrate:

The manufacturers of print goods in the United States have not, as yet, either by agreement or by uniting into one great corporation, been able to prevent competition among themselves and to put up prices to the limit of the duty-paid price of imported prints. Suppose, however, that the old fogies who made our constitution had learned our modern methods of taxing ourselves into prosperity and had refused to prohibit the states from enjoying to the fullest the blessings of high tariff and high prices. Suppose, also, that this little state of Rhode Island now had a Dingley tariff around it, would your manufacturers waste many days in getting together to compel your citizens to pay higher prices for their print goods? Would not the vote for a state tariff be equivalent to an invitation to the manufacturers to charge higher prices for their goods? Would there be any sense in a

protective tariff unless it were to keep out cheap foreign goods and to permit domestic manufacturers to get higher prices? Could you blame your manufacturers of cotton goods if they formed trusts and sold their goods in your little, exclusive, protected state for real "Rhode Island" prices, while continuing to sell in other states at just plain "American prices"?

Would you not expect your manufacturers of woollens, of electrical goods, of steam engines, of locomotives, of automobiles, of soap, and of hundreds of other articles and goods to imitate our steel, sugar, lead, and other trusts, and form combinations with two catalogues and price lists—one for the home market (Rhode Island) and the other for export? You could then have your own steel and sugar and glass and leather trusts. Think of the joy of eating Rhode Island sugar, of looking through Rhode Island window-glass, of riding over Rhode Island steel rails and of sleeping under roofs covered with Rhode Island tin plate! You could have Rhode Island oranges and bananas, too, if you would put duties high enough and were willing to pay the prices. It is all wrong, anyhow, for good protectionists to eat pauper sugar, oranges and bananas from Louisiana, Florida, and Porto Rico. Think of the great home markets you would have if you had plenty of protection and imported no goods from anywhere! All of these and many other accompaniments of protection would now be in reach of the citizens of Rhode Island, but for that awful blunder of our constitution makers.

Possibly in such a small protected area, even the producers of eggs and honey might conclude that they were foolish to let the tariff duties go to waste and would form trusts to reap the tariff benefits patriotically voted to them. Think what a cackling and buzzing you could



have in your little protected paradise if you could and would put a duty of 25 cents a dozen on eggs and 25 cents a pound on honey!

Of course, such duties would increase the cost of living and would make it advisable for the employees in your factories to form unions and to demand "Rhode Island" wages. They could not be expected to pay "Rhode Island" prices and work for the pauper wages of Massachusetts and Connecticut. Surely not! They would, by striking and threatening to strike, get slightly higher money wages than were paid in Connecticut and other states, but not enough to fully offset the higher cost of living in little Rhode Island. Nevertheless, they might feel so well satisfied with protection that they would have a mortal fear of what might happen if they should vote for free trade with other states. Your manufacturers, and probably your farmers also, would get real protection on their products; your wage-earners would get imaginary protection; your consumers, that is all of your citizens, would foot the tariff bills.

Of course, your wage-earners would always be expected to believe that a tariff on goods—what they have to buy—would protect labor—what they have to sell. It would never occur to them that with labor free to go in and out of Rhode Island, wages, real wages, could not average higher inside than outside the state. Nor would it ever occur to them that the way to protect labor would be to put an import tax, of say, \$1,000 per head, on all immigrants from other states and other countries. Your protected manufacturers could be counted upon to keep up the delusion by continually preaching that the blessings of protection were all-pervasive and that, though they were the first beneficiaries of higher prices for goods, yet that, through higher wages and better home markets,

the benefits were finally distributed to all. The system would, of course, be beneficent and, like the Dingley bill, would soon be considered the most perfect ever devised. Anyone who would threaten to lower the duties on any protected product would be an enemy and a traitor. That's the way the game is played in this country. With variations, that's the way it's played in Canada, Germany, France, Austria, Italy, and Russia. The variations are due largely to different industrial conditions. For example, the protectionists of France, Italy, Austria, and Russia do not try to frighten the voters by the danger of being flooded by cheap goods made by the pauper labor of England and the United States. These protected continental European countries are in the pauper-labor business themselves.

The tariff breeds trusts as naturally as a Jersey swamp breeds mosquitoes. To increase protection to industries perfectly capable of standing alone and competing with the world, as was done by the McKinley and Dingley bills, is to invite the formation of gigantic industrial combinations to put up prices. It is not strange then that the era of trusts began with the passage of the McKinley act and was continued, after three years partial interruption, under the Dingley act.

Of the 318 active industrial combinations mentioned in Mr. John Moody's "The Truth About the Trusts", published in 1904, only 80 were in existence previous to the passage of the Dingley bill in 1897. The 238 trusts formed during the first six years of the Dingley law represented five-sixths of the total capitalization of all of the 318 trusts mentioned. Of these 318 trusts there are probably not 20 that are not protected and that do not receive benefits from tariff duties. It is not unlikely, though, that some of them are injured as much by other

protected trusts as they are benefited by duties on their own products. It is, however, easier for them to see the direct benefits than the indirect losses.

Of course, this list of 318 trusts is very incomplete. It includes only some of the larger and more conspicuous of the incorporated industrial combinations. It does not include the hundreds of agreements between the manufacturers of steel products, implements and tools and other hardwares, chemicals, drugs, medicines, etc. These range all the way from steel rails to baby food, in both of which products there are more effective trusts, so far as consumers are concerned, than there are in sugar or beef.

If time permitted, I should like to trace the origin and growth of many of the leading trusts in a way to show the tariff connection. In my limited time I can barely suggest the relation of the tariff to two or three trusts. I will take the steel and borax as typical instances of tariff trusts.

Both as to capital and earnings, the steel trust is easily the most colossal corporation on earth. It is a holding rather than an operating company, and was formed with the intent, effect, power, and tendency to restrain and suppress competition and create a monopoly. It is clearly illegal under the Sherman anti-trust law and under the laws of several states in which it does business, as has been shown by Professor H. L. Wilgus. It is a trust in the original sense of the word, because it holds, as a trustee, the shares of the various constituent companies and votes for directors of these companies. Its net earnings this year will be about \$150,000,000. From its reports, it is impossible to tell the amount of its sales. The 1905 report gave the "gross sales and earnings" as \$585,331,736. The total number of tons of "rolled and other finished products" sold was 9,226,386. Allowing \$35,-

000,000—a liberal estimate—for all earnings and sales outside of those on rolled and finished products, it would appear that 9,200,000 tons of steel products sold for \$550,000,000, or an average of \$60 a ton. But this is an absurdly high price. It is probable that the average selling price did not exceed \$40 a ton, or \$370,000,000. All other sales above this amount, except possibly the \$35,000,000 mentioned, were sales between the constituent companies of the trust. The first annual report, made in 1902, specifically stated that the gross sales (then \$560,510,479) included "sales between the companies".

It is evident, then, that the total gross sales and earnings in 1905 were only \$400,000,000. As the net profit was close to \$120,000,000, the total cost of the goods sold, including all manufacturing and selling expenses, was about \$280,000,000. This means that the net profits were over 40 per cent. of the cost of the goods sold.

Estimated in the same way, it is probable that this year's actual gross sales—to the outside world—will not much exceed \$450,000,000 and the total cost of all goods and services sold may not exceed \$300,000,000. The net profits, then, may be 50 per cent. of the selling price of the goods. As 50 per cent. profits would look bad in the report of a protected corporation that is the recipient of tariff favors, it is wisely deemed best to disguise the rate of profits from the tax-paying people. This is done by juggling the gross sales.

It is difficult to estimate the tariff bonus of this giant "infant". A somewhat careful estimate for the years 1902 and 1903 indicated tariff profits of \$75,000,000 a year with total net earnings of about \$120,000,000. These estimates were made mainly by taking the differences between the export and domestic prices of the va-

rious goods and products sold and by multiplying these differences by the amount of products sold in the home market. It is a safe assumption, based on many known facts, that all important iron and steel products are made more cheaply in this than in any other country, and that all of the difference between foreign and domestic prices—at least up to the amount of the import duties—can be credited to the tariff. In past years, this difference has averaged \$10 or \$12 a ton. This year, because of much higher prices abroad, the average difference will, perhaps, not exceed \$5 or \$6 a ton. That is, it will amount to between \$50,000,000 and \$70,000,000 on the products sold at home by the steel trust. During the past two or three months the prices of some kinds of steel have been as high abroad as in this country. At all times, however, there has been a wide difference on some goods. Thus, the present export price of wire nails is \$1.55 against a home price of \$2, a difference of 45 cents a hundred or of \$10 a long ton.

How superfluous is the duty of \$11.20 to \$22.40 per ton on wire and wire nails is evident from the testimony of Mr. John W. Gates before the Industrial Commission in 1899. He stated that his company then exported 700 tons of wire a day and that it furnished England with 60 per cent. of her supply. He said it was necessary to sell goods lower to foreigners in order "to hold outside trade".

There was no sound reason, even from the infant-industry theory of protection, for any tariff on iron and steel, when the Dingley bill, in 1897, increased the duties on iron and steel goods. Every bit of tariff put on or left on these goods came as a gratuity to our steel manufacturers, a premium to all who had sense enough to

stop foolish competition and support prices inside the high tariff walls.

The manufacturers were not long in accepting the tariff offer. They quickly began to form trusts and put up prices. The little trusts were formed into bigger ones; these bigger ones were gathered into still bigger ones, and, finally, into the nearly two-billion-dollar colossus that is to-day the greatest dictator and the greatest beggar at Washington. That is, this trust is both a prince and a pauper, instead of "either a prince or a pauper", as Mr. Carnegie has said of the iron and steel industry.

The process of amalgamation and concentration is still proceeding rapidly under the sheltering wings of the tariff. Mr. J. J. Hill probably obtained several times as much for his iron ore as he would have obtained if there had been no tariff on iron and steel. He is now cutting tariff melons. He saw a tariff storm coming and was wise enough to gather his crop of melons before the rain began to fall and the flood was upon them. His only mistake was in agreeing to pay the taxes on the ore lands.

How quickly the "rush to industrial monopoly" began, after the passage of the Dingley bill, is evident from the fact that all of the ten important manufacturing concerns that have been absorbed by the steel trust were incorporated in the years 1898, 1899, and 1900. In fact, one of them, the American Steel and Wire Company, was incorporated twice—once in 1898 and again in 1899. The 1898 corporation had \$24,000,000 and the 1899 corporation had \$90,000,000 of capital. The actual capital invested was probably between \$30,000,000 and \$50,000,000.

How quickly the trusts began to put up prices is shown by the quotations of steel and wire products. For example, the base price of wire nails, which was \$1.35 in

July, 1897, just before the Dingley act passed, rose to \$1.57 in February, 1898, after which it declined somewhat while the bigger trust of January, 1899, was forming. The price rose from \$1.59 in January to \$3.53 in December, 1899. That is, under the "economies" of production on a larger scale, prices more than doubled in one year and nearly trebled in two years.

The tin plate trust had a similar experience to that of the steel and wire trust. When the American Tin Plate Company was formed, in November, 1898, American tin plate was selling at \$2.80 a box, or within one-fifth of a cent per pound of the in-bond price of English tin plate. The promoters estimated that there was then a profit of 35 cents per box on 7,633,556 boxes per year, or \$2,671,754. Under the new arrangement expenses were to be reduced \$1,000,000. Perhaps such a reduction occurred. If so, it did not show in the prices of tin plate, which rose from \$2.80 in November, to \$3.20 in January, to \$4 in March, and to \$4.85 in September, or 80 per cent. within ten months. This latter price was near the price of English plates, after paying the duty of \$1.50 a box.

Even before the formation of the steel trust in 1901, American tin plate was being sold for export at about \$1.00 a box below home prices. This practice has continued, and to-day the wages of tin plate workers are reduced 25 per cent. on tin plate made for export.

Assuming that protection was advisable in the infant-industry stages of our tin plate industry, there is to-day no justification for any duty, except that it enables this trust to extract about \$10,000,000 a year from our consumers. This duty increases the cost of our food and shelter. It has cost us more than \$150,000,000 since the passage of the McKinley act in 1890. This is the price we have paid for an industrial mendicant that has always



been a curse to the country, by interfering with or ruining the well-established and independent industries like that of fruit and vegetable canning that ask for no governmental aid. To some this price seems high. We would rather the industry had developed naturally and without artificial aid. It might have taken a few years longer, but we would surely have had it by this time, even if there had never been a duty on tin plates.

The Borax Trust is one of the best examples of the evils of tariff "protection". In November, 1890, soon after the passage of the McKinley bill, the Pacific Coast Borax Company absorbed nearly all of the important producing borax mines of California and Nevada. These mines produce more than half the borax of the entire world. They probably produce it cheaper than it is produced in any other mines. The price was promptly run up from  $8\frac{1}{2}$  to  $9\frac{1}{2}$  cents, after the McKinley act raised the duties to 5 cents per pound on all forms of borax.

When the Wilson bill reduced the duty to 2 cents the price of borax declined rapidly to 7 cents in September, 1894, to  $5\frac{1}{4}$  cents in 1895 and to 5 cents in 1896. Not only did the demand increase rapidly under the stimulus of low prices, but large quantities of borate of lime were exported and sold in England at from 2 cents to 3 cents per pound. When the duty was again put back to 5 cents, by the Dingley act in 1897, the Oil, Paint and Drug Reporter expressed the opinion that because of the largely increased demand for borax at the low prices that had prevailed it would be bad policy for the trust to materially advance prices and thus check production. Nevertheless prices were put up to 6 cents in October, 1897, to 7 cents in February, 1898, and, by July, 1900, they had reached 8 cents. Since then prices have remained between 7 and 8 cents. At these prices there is probably 4 to 5 cents

per pound net profit, or something like \$4,000,000 a year on the 90,000,000 or so pounds produced.

By underselling foreign producers in their own markets in 1896, 1897, and 1898, the Borax Trust was enabled to drive its competitors so nearly out of business that it took them over on its own terms and, in 1899, the twelve principal borax producers and refiners of the world were combined as the Borax Consolidated Works, Limited. This world trust is clearly the offspring of the Dingley bill, as are also similar world trusts in several important steel products. Had there been no duty on borax, neither the American nor the world trust would have been formed. From behind our tariff, which enabled our trust to become swollen with profits, Mr. F. M. Smith, the head of the Pacific Coast Company, waged a warfare that soon made him the borax king of the world. The British and Colonial Druggist, of England, stated the situation clearly in September, 1897. To the "natural advantages in the matter of deposits of pure borax," it said, the American trust was protected by an extremely heavy duty on borax, which "practically bars foreign product from entering into the States". It said the American manufacturers were "in a position to give away one and a half times as much borax as they sold at home, and yet receive a return per pound on the whole higher than the present English price per pound".

This trust is to-day selling refined borax in New York at  $7\frac{1}{2}$  to 8 cents, and in London at 3 1-5 to 3 2-5 cents per pound. Thus the protected American is just double the free-trade English price. Whether or not American borax is still being exported I do not know. If not it is probably because Mr. Smith does not care to give his American subjects a permanent exhibition of their tariff folly.

The scandalous proceedings which characterized the passage of the sugar tariff in congress in 1890, 1894, and 1897 were more than duplicated when the duty on borax was raised in 1897. Absolute fabrication on the part of several senators, both Republican and Democratic, was resorted to to get the duty increased. For instance, two senators denied that an international trust had been formed, although one had then been running six months and, in spite of the low prices, had earned 12 per cent. on its capital, as was shown clearly by facts submitted. Again, although the prospectus of this trust stated that American borate had been exported to England and sold there for less than 2 cents a pound "at a substantial profit", one borax senator had the hardihood to assure his easily beguiled brother senators that nothing of the kind had ever happened or could have happened.

If we had had an Industrial Commission that had not been "stacked" by protectionists it would have made some attempt to inquire as to the inducements that prompted the four borax Senators to falsify facts in order to get the borax duty increased.

The extent to which the tariff trusts plunder us is not known. It is reasonably certain, however, that the amount of the tariff-trust graft far exceeds the graft in both our railroads and insurance companies concerning which so many of our good citizens have become excited during the last two years. Somewhat careful and detailed estimates indicate that it is nearly \$100 a family, or between \$1,500,000,000 and \$2,000,000,000 a year. This estimate was reached by considering the items purchased by the average family and the tariff cost of each.

Some idea of the amount of this tariff-trust graft may be obtained by considering the difference between the rise of prices in this country and in England. Sauerbeck's

Index Numbers indicate that prices in England were 32 8-10 per cent. higher in November, 1906, than in July, 1896. The London Economist's tables indicate a similar advance. Bradstreet's tables indicate an advance of over 54 per cent. and Dun's of 48 per cent. in this country in the last ten years. Prices in this country, then, have risen about 20 per cent. more than in England since the passage of the Dingley bill. Of course, the prices of many protected articles were higher in this country in 1896 than in England, for there were tariff trusts even in the comparatively low, but actually very high, tariff days of the Wilson bill.

In England there is no tariff and there are no trusts, such as we have in abundance, to account for the 30 per cent. advance in prices. This advance can fairly be credited to the depreciation of gold, caused by its rapidly increasing output and supply. If the same cause accounts for a similar increase in this country, we have an advance of 20 per cent. to account for by other causes. If only two-thirds of this increase be credited to the tariff trusts, we have fully 10 per cent. of the cost of living chargeable to Dingleyism.

It is this nearly \$2,000,000,000 a year of tariff graft that has created more of our swollen fortunes than any cause mentioned by the prominent protectionists who are now casting so anxiously about for means of reducing the swelling. While inheritance and income taxes might cause a slight decline in the rapidity of growth, they would not stop the increase in these swellings. The increase will not stop until the causes of it are removed.

What folly to pass tariff laws to invite trusts and to license them to plunder us while, at the same time, we are passing other laws to control, curb, and even to destroy these legally-created monsters! We put certain

statutes on our books to obstruct trade and certain other statutes to punish those who obstruct trade by making effective use of the first statutes. We have the McKinley and Dingley bills to encourage trusts and the Sherman and Elkins anti-trust acts to discourage them. The absurdity of such legislation is only equalled by that of New York and other states that have passed laws that allow one corporation to purchase the stocks of other corporations, and other laws to punish rigorously any corporation that obtains a monopoly by buying a controlling interest in the stocks of other companies. Mr. Franklin Pierce, in his book "*The Tariff and The Trusts*", just off the press, says that such absurdities are characteristic of American legislation. He says:

"We legalize conditions out of which an evil arises and then attempt to suppress the evil by penal statutes. We provide the high duties upon foreign imports for the protection of home industries, and when a monopoly controlling the home market results therefrom, then pass penal laws punishing the monopoly. In this way our politicians prove to the great combinations who furnish campaign disbursements for political parties their fidelity to monopolistic interests, while, by the penal statute, they assure the people that they are against the trusts."

Of course, our politicians are not looking for the real cause of trusts. They are not bent on exterminating the trusts that supply campaign funds that keep them in power. They vote for tariff laws to aid the trusts and harm the people and then for anti-trust laws that will neither harm the trusts nor aid the people. Such anti-trust laws are only intended to keep the people quiet, to distract attention, and to delay the application of the real remedy.

The real remedy is, of course, the removal of the cause. Any other remedy than the removal of the tariff that nourishes and protects trusts is spurious and futile. The

trusts know this and the politicians at Washington know it. The trusts know that their friends could not long remain in power if they did not pose as "trust busters" and spend part of their time concocting harmless remedies. The trusts understand that, in order that they may hold on to the tariff, it is necessary for them to submit to more or less annoying, but perfectly ineffective, anti-trust legislation. They will submit to almost any kind of harsh treatment administered in order to fool the people and to divert attention from a consideration of the real remedy. The one thing that the trusts will not permit their agents, the politicians at Washington, to do, is to touch the tariff. Even the revision of our drawback laws is not permitted. The steel trust simply tells Mr. Dalzell to tell Mr. Payne that the drawback duties are not to be touched and the Ways and Means Committee becomes as impassive as a sphinx.

Discussing the remedy for trusts, Mr. William Lloyd Garrison says:

"Break the tariff embargo and foreign competition will bring prices to a fair level. In England a great soap trust was recently launched. It had capital and ability, but no tariff to shelter it. Public indignation cut that flower down in a night. And what a decimation of robber contrivances would take place in this country with the abolition of duties on trust articles! Able now to produce at less cost than manufacturers anywhere else on earth, these chartered monopolies now sell abroad their exports at prices far below domestic ones. Gratitude for the tariff privilege, which these stupid American people concede, is manifested by these beneficiaries in further punishing consumers with extortionate prices and favoring the people of foreign lands against whom it is the custom to invoke distrust and jealousy. To say that trusts cannot be reached through the removal of tariff duties is to betray crass ignorance or a deliberate purpose to shield the iniquitous conspiracy under which the people of this country groan."

## THE RELATION OF THE PROTECTIVE TARIFF TO THE TRUSTS.

A. W. FLUX.

The problem proposed for discussion this afternoon has been treated from a practical standpoint by those whose papers have preceded mine. Several questions arise, to any of which we might address ourselves. How far, if at all, are Trusts created by Tariff privileges? What advantages can and does the Tariff confer upon Trusts? What additional power, adverse to the general interests of the community, may Trusts derive from Tariff arrangements? How far can we expect that adjustments of the Tariff may be made to restrain action on the part of Trusts which is to the disadvantage of the public? On such questions as these a hasty judgment may easily be erroneous, and the interpretation of apparent facts needs the assistance of economic analysis. Such a gathering as the present may not improperly be invited to consider some of the simpler methods of analyzing the problem presented to us. Let us attempt to review the situation in the dry light of reason before proceeding to illustrations, of the conclusions suggested, afforded in the operations of actual Trusts.

It will be taken for granted that by the term Trust we are to understand an industrial or commercial organization which aims to control the manufacture or sale of some commodity or commodities by uniting the interests of a more or less numerous group of producers or merchants, previously independent, and either making or selling the same product or engaged in different stages



of the preparation of one and the same product for the market.

First consider the case of the union of establishments whose industrial operations are roughly parallel to one another. The merger of several such establishments in one organization aims at one or both of two sources of advantage, viz., the economies of large-scale operations in comparison with small establishments, and the more or less complete control of the supply of the commodity handled, with a view to attaining the advantages of monopoly.

If the processes of manufacture in the case in question be such that an increase of the scale of operations enables the quantity of product to be increased in a larger proportion than the expenses of production, it is a familiar argument that the larger business is enabled, by reason of its larger size, to undersell the smaller, and the smaller businesses can only maintain themselves by either accepting lower profits or depending on some special advantage, in respect of materials or of process, not enjoyed by the larger rival. In the absence of such advantages, the smaller businesses may be undersold and compelled by the resultant losses to give up the struggle, after a fight more or less prolonged. If two or more rivals push ahead at a rate sufficiently near to equality to attain about equal advantages from operation on an ever-increasing scale, their efforts to market the whole of their output may involve such competition in prices, or in selling expenses, as to deprive them of any financial advantage from their enlarged operations. So long as there is assumed a decrease of expenses per unit of output with each stage of advance in output, each producer may be induced to try to avoid loss by continually expanding production, and, in the course of time, under these conditions,

production will increase so much as to outrun demand at remunerative prices. This I take to be the kind of mutually destructive competition to which reference is so generally made in setting forth the causes of the consolidations which have been so frequent of late years. But it is well to observe that, to grant this as the real explanation, implies the assumption that, within the limits of expansion of the rivals as separate organizations, a relative decrease of expenses is found by each of them to accompany an increasing scale of operations. Now many writers, while readily admitting the operation of this principle in actual business as it is, assume that a stage in expansion will be at length reached beyond which the principle will no longer apply. The point of interest to us in the present connection is at what stage this cessation of relative economy with growing business will set in.

Suppose that it sets in before the mutual competition has become so keen as to induce amalgamation as a refuge from mutually destructive rivalry. In that case, further enlargement of operations implying a relative increase of expenses, the reasons for a cessation of the process of expansion are found by each concern in the conditions of its own business. If reasonable profits can be secured by each under these conditions, that is, if the demand be extensive enough to absorb all the production at a profit, the inducement to combine will not be found in the existence of a stimulus for each establishment to go on enlarging its operations so long as it is not prevented from doing so by actual contract with rivals. Each will be limited in its expansion by conditions arising from the circumstances of its own internal organization. Yet a merger of interests is not excluded under these conditions. Through combination, some of the management expenses, still more some of the expenses of marketing, may be

made to bear more lightly on each concern, and thus increase of profit may be secured. Further, control of the entire supply makes possible a restriction of production, and as a result, in view of the assumed conditions, a creation of monopoly profits at the expense of consumers.

In this case, what effect has the existence of an import tariff on producers and on consumers? By the conditions assumed, restriction of supply in some degree, and within certain limits, involves reduction of expenses in a greater proportion, thus yielding extra profits. If the competition of rival producers in foreign countries be excluded, the limits to the rise of price are found in the condition of maximizing monopoly profits. The admission of foreign goods, if their producers can make and send them at a price low enough to undercut the monopolists, may do no more than reduce the profits towards the level found in the ordinary run of businesses at the time, and in the country concerned. It may economize the resources of the country by providing an adequate supply of the goods in question while avoiding the exploitation of the natural facilities of the region as far beyond the point of maximum economy as would be needed if all that could yield a profit on its expenses of production were produced at home. The monopolizing of the industry economizes these resources for the needlessly great benefit of the producing interests. The same economy, but so attained as to spread the advantages among consumers, will be in the way of being secured by admitting foreign supplies.

Two variations of the conditions suggest themselves as possible. One is that foreign producers will have to meet such heavy expenses of production and transportation that they will be unable to compete with the home producers at or below the level of price corresponding to the maximum monopoly revenue. Should this be the case, tariff

duties would be merely decorative if imposed, and not—at the time—in any sense oppressive: they would be neither useful nor noxious. The other case calling for attention is that where, at the level of price corresponding to the maximum economy of production, and with a profit at a reasonable rate, foreign competitors could entirely undersell the home producers. In this case the maintenance of a home production, even in an industry whose infancy is past, must depend on the imposition of a duty high enough to permit of setting prices at the level of remunerative production. As this case merely brings up the general policy of the encouragement of industries not congenial to a country at the expense of the consumers of the goods produced, I shall not attempt to resume the arguments for and against the practice.

It will appear, then, that in the case in which the home market is large enough to permit of the expansion of several establishments in any one industry beyond the stage of maximum economy (whether at some stages in expansion increase of economy accompanies increase in the scale of operations or not) the existence of a tariff may afford an opportunity for restricting supply and raising price, for the advantage of the consolidated producers, and at the expense of consumers.

In the case just considered, it was assumed that, even in the stage of competition preceding consolidation, the separate producers had passed the scale of operations yielding maximum economy. In that case the further economies of the combination would be derived from the avoidance of duplication of some parts of the organization, and especially the economy of marketing resulting from the abolition of mutual rivalry. In the case next presenting itself, the merging of interests of rival producers may be stimulated by the keenness of a competition

dependent on each one reaching out after a reduction of expenses per unit of output by adding to the output, *i. e.*, that the rivals separately have not attained the scale of production corresponding to maximum economy. After consolidation, however, the unified business may attain and pass that scale of operations. Its profits, as compared with the case previously discussed, would be derived in part from the economies of increased specialization of function in different parts of the producing organization. Apart from this, however, the considerations adduced in the former case apply again in this instance, and no recapitulation is needed, especially as my time is limited.

The third case is that, not only in the case of the separate rival producers, but also in the case of the consolidated business formed through the merging of their interests, the scale of operations remains less than that corresponding to maximum economy. Increase of output could in this case be secured at a reduced expense per unit of product, and conversely. But the increase of the scale of operations is checked by the consideration that it is no longer possible to dispose of the increased output by displacing a part or the whole of a rival's sales, so that the enlarged output must be offered at a price low enough to evoke the demand for it in sufficient quantity, and a reduction of gain may be the result.

In such a case, what effect may be produced by the existence of a duty on imports? The exclusion of imports means that a larger market is open to the home producer. He may, conceivably, find that, with the larger market, the volume of product which yields him the greatest monopoly profit must be offered at a price as low as that of the imported product in the absence of a duty, or nearly so. The deprivation of a part of his market means

more expensive production and reduction of profit towards, perhaps below, the level of ordinary business, unfavoured by special conditions. The monopolists may be able to keep out most of the foreign goods by offering their own goods on terms involving a sacrifice of part of that profit which might be secured were the market protected. Even the threat of competition may effect a reduction of price in favor of the consumer, while leaving the producers with a rate of profit in excess of that of non-monopolized businesses.

No lengthened consideration need be devoted to the case of Trusts which arise from combining the interests of those who are engaged in different stages in the preparation of a product for final consumption. The advantages which arise from diminishing the uncertainty of suitable supplies of partly manufactured materials, or of the raw material of industry, afford a stimulus to such combinations, in addition to any monopolistic control of markets. Saving of expenses of organization, too, apart from the economy of developing particular stages of the manufacturing process on a large scale, favors such integration of industry. The general considerations previously adduced might be repeated with little change for this class of combinations, and the determination of a stimulus to combination in which the tariff was not involved might find even more important illustration than in the merging of manufacturing establishments conducting roughly parallel operations. It is unnecessary to repeat here a discussion which may be found adequately set forth in numerous monographs familiar to members of this Association. The special features of the integration of industry will, therefore, not be even summarized on this occasion.

So much is said of the Trust being the result of mutually

destructive competition that I have thought it excusable to dwell on the somewhat elementary considerations which precede, inasmuch as these considerations aid us in discriminating between the consolidations which result from the natural conditions of industrial organization, and those which aim at profit mainly through monopoly, and which are dependent on the maintenance of that monopoly on their behalf, through import duties, for their chief advantages as consolidations over their advantages as separate and rival businesses. In those cases where the economy of an increased scale of operations does not reach its limit within the capacity of the market of any one country, the tendency towards monopoly as the result of too severe competition among rivals is primarily due to natural conditions. Even here the extent of the advantage open to Trusts through an effective control of prices is, of course, largely dependent on the Tariff.

If the foregoing analysis correspond in essentials to actuality, it is not difficult to meet the assertion that Trusts cannot be produced by Tariffs because they are found in free-trading Great Britain. It should not be claimed that all Trusts are creatures of the Tariff. But it may be claimed that the extent to which Trusts can fix prices for their own gain, and to the essential disadvantage of the communities in which they operate, is dependent on the existence of, and the level of, the Tariff under which they operate. Thus we may find reason in the claim, ridiculed by many defenders of Trusts and of Protection, that though Trusts exist in free-trade England, their power for evil is comparatively small. But though the power of Trusts is thus restrained by the free admission of foreign goods, it remains far from unimportant. Under the protective shelter of the Tariff, a Trust may make a large difference between its prices



for the home market and for foreign markets. Its own products cannot come back, nor can similar products from the low-priced market in which it disposes of its surplus come in, to spoil the home market, unless double freight and duties together fall short of the difference between domestic and export prices. Where freights are more important than duties, this difference may exist because natural conditions favour its existence. Where freights are low, the difference cannot be large unless duties are heavy. It is thus that the English, though as much addicted to making special prices for export as any people, are, in the absence of duties on most commodities, restrained from maintaining extravagant differences in their quotations for home consumption and for export. A persistent attempt to push prices too high invites competition from one or another foreign country. Formerly, when foreign countries were not equipped to seize such opportunities, the margin between quotations for export and for the home market had a much less effective restraint, especially in view of the much greater hindrance offered by the high level of freight rates which prevailed in former times.

Some reference to particular examples in which Tariffs afford unreasonable opportunities for gain to syndicated producers may be fittingly introduced at this point. There springs to the mind the case of the sugar industry to which others have referred. The time available will hardly permit of a reference to the experience of Germany and other European countries under the bounty system, and the advantage which has accrued to sugar consumers through the abolition of the bounties and the restriction of the difference between import and internal revenue duties. The sugar refiners were caught in a system which forced them to sacrifice their profits, not

for the benefit of their own fellow-countrymen, but for the advantage of foreigners, and sometimes even of the customs revenue of foreign countries, where countervailing duties were levied. The destruction of the bounty system, with its reduction of import and excise duties, has benefited producers as well as consumers.

We can illustrate the effect of tariff arrangements where production is practically controlled by a small group of capitalists from the condition of the sugar refining industry in Canada and in the United States at the present time. Let us take the case of Canada first. There, before the new tariff was presented to the House of Commons a month ago, the duties on sugar were as follows, calculated on sugar at 96°: on raw sugar 71½ cents per 100 lbs., on refined \$1.20 per 100 lbs., with 1½ cents per 100 lbs. in each case for each advance of one degree. These rates were subject to a reduction of one-third under the British preferential tariff. In the year 1905-6 the raw sugar entered for consumption was 344,000,000 lbs. under the British preference and 76,000,000 lbs. subject to the general tariff. Assume for the present that the price-level, both for raw and for refined sugars, was practically fixed by import prices under the preference. Refined sugar at 96° is charged, under the preference, 32 1-3 cents per 100 lbs. more than raw sugar at 96°. Not to risk exaggeration, we will make the allowance claimed by the representatives of the industry, and assume that 108 lbs. of raw sugar at 96° is needed to yield 100 lbs. of refined sugar.<sup>1</sup> But these 100 lbs. of

<sup>1</sup>On the subject of this allowance, see *Report of the Industrial Commission*, Vol. I, pp. 93-94, testimony of Mr. Claus Doscher; and the *Montreal Star* for Dec. 3rd, 1906, in an interview with Mr. E. W. Parker, Secretary of the Canada Sugar Refinery. It will be noted that our calculation claims nothing for the protective effect of freight

refined we shall take at 99.5°, and, on this basis, the differential taxation works out at a small fraction over 32 cents per 100 lbs. of refined sugar. The sum represented by the lower taxation of raw sugar in comparison with refined was, in 1905-6, in excess of \$1,000,000. The census report of 1900 shows that the sugar refining industry then paid out in wages the sum of \$612,680, the wage-earners numbering 1200. If the number of persons employed be assumed to be 50 per cent. greater now than at the date of the census, and their wages greater in the same proportion, the present number of wage-earners would be 1800, and the wages about \$920,000. The assumed increase in five years corresponds roughly with the increase in raw sugar imported. It would thus appear that the differential duty on refined sugar represents a sum amply sufficient to pay the wages-bill of the sugar refiners, even if allowance be made for some raw sugar not being converted into refined. What a remarkable benefit to the country is an industry, the organization of which lacks the power to compete with foreign industries in so great a degree that it needs encouragement represented by the entire amount of its wages-bill to enable it to survive! And even if it be argued that our comparison has left out of account any increase of wages per head in recent years, a suitable allowance in that matter would still leave the case substantially as strong as before. Of course the employees in the sugar refineries are not so inefficient compared with European competitors as not to earn any part of their wages. The popular impression

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charges. British refined has borne freight from the West Indies to Great Britain as raw sugar, and thence to Canada as refined, while sugar refined in Canada has borne only the freight from (say) the West Indies to Canada. The effective protection may be nearly as great from this cause as from the customs duties.

that the small group of persons interested in sugar refining are prospering at the expense of the nation seems not to lack justification.

The change in the Tariff proposed by the Canadian Minister of Finance is to advance the duty on raw sugar while leaving that on refined unchanged. The differential, on sugar at 96°, will be reduced to 25 cents per 100 lbs., or, on the modified basis previously explained, 24.1 cents per 100 lbs. of refined sugar. The aggregate amount represented, calculated as before on the basis of last year's importation, is reduced to about \$800,000. This reduced advantage still represents not far from \$450 per head of the 1800 wage-earners, as the sacrifice by the nation for the sake of providing the employment in question. It is not a sacrifice for the sake of establishing a new industry, and fostering it during the struggles of its infancy. The industry has had substantial tariff assistance for a lengthened period. Were the sugar duty merely a revenue duty, and were the country to import all its sugar in the refined state, it can hardly be doubted that it would gain financially even if it assumed the burden of pensioning all the wage-earners now employed in sugar-refining. It can hardly be contended that the capital which has been devoted to this industry could not have found remunerative employment in developing some of the rich natural resources of the Dominion, while the salaried staff, representing the interest neglected on the above account, might not improbably be needed to conduct the mercantile operations of distributing imported refined sugar. It is not to be assumed, however, that with the abolition of the differential duty the industry of sugar refining would be destroyed. It is only suggested that, if it were, the consumers and producers concerned might not be losers, except in so far as monopoly

gains on the capital employed are assured by the present mode of taxation.

As to prices, the average selling price of granulated sugar in Montreal during the fiscal year 1905-6 was \$4.39 per 100 lbs., or, deducting the trade discount of 5 per cent., \$4.17. As a standard of value for British refined sugar, we may take the quotations of Tate's standard granulated for comparison. Deducting the duty of 4 s. 2 d. per cwt. to obtain the value for export, and reducing to American currency, this averages \$2.77 per 100 lbs. in the period named. Adding to this the Canadian duty on sugar at 100°, we have \$3.61 per 100 lbs., to which shipping charges from Great Britain have also to be added. Even after allowing for the fact that Tate's quotation is of sugar refined from the beet product, while, to secure admission to Canada at preferential rates of duty, British colonial sugar must be used as raw material, and its cost is somewhat greater than that of beet sugar, the comparison makes it appear that the price of refined has not been made lower in Canada than competition compelled. Even if the claim of the refineries that they paid higher prices than those of the New York market to the West Indian sugar planters be admitted, they do not claim to have conceded more than about one-half of the differential, and the figures given above would still leave food for reflection as to the expense of maintaining the home industry of sugar refining.<sup>2</sup>

<sup>2</sup>The valuation of raw sugar imported at preferential rates of duty in 1905-6 averaged \$2.17 per 100 lbs. This is supposed to represent the value at the place from which it is shipped. The comparison with U. S. figures month by month shows some remarkable contrasts. For the last half of 1905, the Canadian average was \$2.65, while the U. S. average for Cuban sugar was \$2.35. For the first half of 1906, the Canadian average was \$1.84, the U. S. figure \$2.08, the averages for the whole year being substantially identical for the two

The case of the same industry in the United States is somewhat similar, and the corresponding data may be briefly reviewed. Basing the calculation on Cuban sugar, which constituted fully two-thirds of the raw sugar imported from foreign countries last year, the import duty is \$1.348 per 100 lbs., or \$1.456 per 108 lbs. The duty on refined, in which Cuba does not compete, is \$1.95 per 100 lbs. The differential in favor of home refining is thus 49.4 cents per 100 lbs. If we take the duty on ordinary foreign sugar in place of that on Cuban raw sugar, the differential is only 13 cents per 100 lbs. of refined, or 12 cents per 100 lbs. of raw sugar, if we allow, as before, 108 lbs. of raw sugar to 100 lbs. of refined. Ignoring any advantage derived from the differential in respect of Hawaiian and Porto Rican sugar, refined in the United States, which represents nearly one-quarter of the total imported raw sugar, the 12 cents per 100 lbs. of raw sugar represents over \$4,750,000 on the raw sugar imported from foreign countries in the fiscal year 1905-6. If it be supposed that the differential taxation of raw and refined represents equal advantage on sugar from non-contiguous territory to that on foreign sugar, then the aggregate sum involved will exceed \$6,000,000. If, further, the Cuban preferential duty, in part or as a whole, accrues to the United States refiners in lower expenses, a further sum of over \$9,000,000 is available, from which to add to the profits of the Sugar Trust. This last is the amount accruing jointly to sugar producers in Cuba and

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cases. Adding, to the above figure of apparent cost of the raw sugar, the Canadian duty and shipping charges (20 cents per 100 lbs. being allowed for the latter), we find \$2.90 as the cost of the raw sugar to refiners in Canada in 1905-6. The margin for refining is thus \$1.27 per 100 lbs., or, on the modified basis explained above, \$1.04 per 100 lbs. of refined sugar. (Cf. figures for U. S. and Great Britain on a later page.)

sugar refiners in the United States as the outcome of the reciprocity arrangement.<sup>3</sup>

Referring to the reports of the Census of 1900, we find that the industry of refining cane-sugar and molasses employed 14,252 wage-earners and paid rather less than \$7,000,000 in wages in that year. The differential taxation of raw and refined in 1905-6, therefore, represents a sum probably not less than the entire wages-bill of the United States sugar refineries in the Census year. Estimating the growth in wage-earners since that year at one-third, and allowing for a substantial increase in rates of wages, it means well over the half of the wages-bill of the present time, even leaving practically out of account whatever advantage in purchasing raw sugar may be derived from the 20 per cent. rebate of duty on Cuban sugars. That the consumer does not secure the advantage may be regarded as probable in view of the figures cited above as to the recent price level of granulated sugar in London. The New York prices of centrifugals and of standard granulated averaged \$3.61 and \$4.53 per 100 lbs. in the fiscal year 1905-6. The London prices have averaged as follows: Cuba centrifugals, \$2.13 duty-free, or \$2.92 with the duty; and standard granulated \$3.67 per 100 lbs. The margin to cover the expenses of refining in the United States is thus 92 cents per 100 lbs., while the London margin is 75 cents per 100 lbs. Comparing the values of 108 lbs. of raw sugar and 100 lbs. of refined, the margins are 63 and 52 cents respectively. Here, again, the facts adduced suggest that the consumer has been mulcted of about all that the situation permitted.

<sup>3</sup> The Cuban exporter may secure the advantage of the rebate, while the planter gains little. In so far as the exporting merchant represents Sugar Trust interests, the division of advantage between exporter and importer has little importance.



For the sake of employing (say) 18,000 persons, a sum which we have estimated at something over \$6,000,000, and which may exceed \$9,000,000 without extravagant assumptions as to the division of the benefit of the Cuban reciprocity duty, is diverted from the Federal Treasury into the coffers of the small but powerful group of capitalists interested in sugar refining. Is the country satisfied to provide dividends on Trust capital, generously watered, in this way?

This case of sugar might afford a suitable opportunity for comment on another aspect of the relations between Tariffs and Trusts, namely, the influence, whether legitimately or corruptly exercised, of powerful protected monopolies in shaping the Tariff to serve their own ends. Possibly the evil of this phase of the relations under consideration is more serious than the merely financial results to which attention has been directed. A further point of no little importance is the danger that one of the results of the formation of great Trusts may be to lead industrial organisers to frame their policies with a view to their effect on the stock market, rather than with reference to their industrial efficiency. I refrain from enlarging upon these matters here, especially as I anticipate that others, more intimately acquainted with the facts than I am, will select them for discussion in the course of the afternoon.

Reference may appropriately be made in this connection to a device of the Canadian tariff by which it is expected to impose some restraint on the oppression of consumers by combinations which have attained a monopolistic status. The practical working of the plan was seen in the case of the manufacturers of news printing paper, who put up the price of this important material. The executive government, early in 1902, on obtaining satisfactory proof of the facts, reduced the duty from 25 per cent.

*ad valorem* to 15 per cent. This reduction has been maintained in the new tariff, and the facilities for applying similar treatment to other cases, of the abuse of monopoly powers which depend on combination, have been increased. The Minister of Finance, in introducing the new tariff, made it understood that the utility of the provision had not been confined to the case of actual change of the import duty. Fear of similar punishment has, he believed, restrained other monopolists from pushing their powers too far.

The influence of powerful Trusts in securing the maintenance of import duties when the industry concerned has attained sufficient strength to compete on even advantageous terms with foreigners finds much illustration in the actual facts of to-day and in the United States. A familiar and much discussed case is that of the iron and steel industries, in which a gigantic Trust, sometimes claimed as the greatest in the history of the world, dominates the situation. Here the special efficiency of American industrial methods finds its most conspicuous illustrations. But it may be asked if the consumers of iron and steel are permitted to secure their proper share of the results of this efficiency. Have not the organizers of the Trust pre-empted, if one may use the term, the advantages of the situation? It being possible to maintain prices at an advantageous level if competition can be sufficiently controlled, has not the Trust afforded an instrument by which its organizers, rather than users of its products, may profit from technical progress? Is not the notorious inflation of the capital account of the Trust the result of the exercise of its powers?

In view of the boasts over the efficiency of American methods in producing and in handling iron and steel, may one not be pardoned for expressing some surprise at the

results as reflected in the course of prices of typical products?

I am aware that the Bulletin of the American Iron and Steel Association has given tables meant to demonstrate that American prices have fallen, when compared with British quotations. The careful and unprejudiced tracing of the course of prices as given in the published quotations of recognized authorities hardly supports this conclusion of the Bulletin. The *Economist* of London affords prices for Bessemer pig iron in England, while the reports of the Bureau of Labor contain quotations for Bessemer pig at Pittsburg.<sup>4</sup> Between the years 1891-5 and the years 1901-5, the average price at Pittsburg has not got any closer to that at Middlesborough, either absolutely or relatively. A similar abatement holds of bar iron.<sup>4</sup> A special point is made of the steadiness with which the price of steel rails has been held at \$28.00 for five years past. The average for the years 1891-95 was but a few cents higher than this. But the average price of steel rails in the north of England only slightly exceeded \$25.00 in the five years 1901-5, and has been considerably lower, while it has not been above the American price from the middle of 1901 to the beginning of the current year. As compared with the early nineties, the British price of steel rails has been higher for each of the last ten years. Here, then, we have a case in which the Trust has fixed a price lower than if the course of prices in such a country as England had been paralleled, and lower than that which has prevailed in England throughout the current year. But in England, during the last twenty years, prices have been below the twenty-eight-dollar level, except from the middle of 1899 to the middle of 1901 and since the beginning of 1906.

<sup>4</sup> For details of prices see Appendix.

We find, then, that pig iron and bar iron have fluctuated in cost in America more violently and more continuously than in England, and that their prices have not approached closer to English quotations. In steel rails steadiness has been secured, and steadiness at a price which compares favorably with that of previous years when the changes of price-level in England are considered. But, in spite of the advantages in the manufacture of steel possessed by the Pittsburg district, the British rails have been placed on the market at a lower price than the American from the date on which the present price was established by the Trust till the current year opened. From the middle of 1897 till well into 1899, American quotations for steel rails were well below the English quotations, so that the present situation is not without precedent. Even the case of steel-rail-prices hardly affords a convincing demonstration that the advantages of American ingenuity and efficiency are allowed to reach the consumer as fully as might happen in the absence of the Trust. And the impression produced on the public by the fairly well supported demonstration of the readiness of the Trust to avail itself of the Tariff in order to avoid conceding to the home market prices low enough to evoke a demand for the entire available output is not to be ignored. The difference between export prices and domestic prices, as has been pointed out above, can be as great as a double freight and the import duty combined. Were there no import duty, sales at special rates might still be made for export, but in that case the attempt to dispose of a larger share of the product at home, by suitable concession in the price, might be a more probable alternative. The usefulness of the tariff, in permitting the maintenance of prices at an inflated level from time to time may be illustrated

from the price-records of pig iron and of bar iron in 1902 and 1903.<sup>5</sup> The concession of a steady and moderate price for steel rails does not suffice to demonstrate the beneficial, or even the harmless, nature of the quasi-monopolistic power of a great Trust, secured from the most dangerous kind of competition by a tariff with rates of duty suited rather for the encouragement of an infant industry than for the case of the most powerful producers of iron and steel in any country at any time.

<sup>5</sup> See Appendix.

#### APPENDIX.

##### AVERAGE ANNUAL PRICES OF IRON AND STEEL PRODUCTS.

Year	PIG IRON		IRON BARS		STEEL RAILS	
	Hematite at Middlesboro	Bessemer at Pittsburg	Cleveland	Pittsburg	Welsh Ports	Penna.
	per ton		per 100 lbs.		per ton	
1894	\$10.58	\$11.38	\$1.08	\$1.34	\$17.95	\$24.00
1895	10.68	12.72	1.05	1.44	18.40	24.33
1896	11.21	12.14	1.09	1.40	22.51	28.00
1897	12.13	10.12	1.14	1.31	22.05	18.75
1898	12.54	10.33	1.17	1.28	22.05	17.62
1899	15.97	19.03	1.50	2.07	26.22	28.12
1900	19.27	19.49	2.03	1.96	35.28	32.29
1901	14.32	15.93	1.48	1.84	27.37	27.33
1902	14.43	20.67	1.35	2.13	26.46	28.00
1903	13.68	18.97	1.39	2.00	26.31	28.00
1904	12.26	13.75	1.33	1.72	21.60	28.00
1905	14.84	16.36	1.37	1.92	24.94	28.00
1906	16.68	19.63	1.56	1.71	31.02	28.00

British prices are quarterly averages, American prices are monthly averages.

## THE TARIFF AND THE TRUSTS. —DISCUSSION.

HENRY B. GARDNER: So far as Professor Flux's paper is concerned, it will suffice to say that I find myself in practical agreement with it and I shall, therefore, use the few minutes at my disposal in pointing out in what respects the presentations of the subject by Mr. Clarke and Mr. Holt appear to me open to criticism.

I may say at the beginning also that in so far as these papers are open to criticism it seems to be more because of a partial treatment, a failure to grasp the question as a whole, than because of positive error in the views advanced. I venture to say that a "trust" does not mean the same thing to Mr. Clarke and to Mr. Holt. The term represents not a simple idea but an idea made up of various elements, among the most important of which are concentration in control and management of industry, making difficult the establishment and maintenance of independent enterprises within the territory covered by the combination, and ability to exercise greater control over supply and price than is possible in the absence of such concentration of management and control.

Bearing in mind these two distinct, although frequently related, elements which go to make up a trust, it is evident that they may be differently affected by such an influence as the imposition or removal of import duties.

It is apparently the tendency toward concentration which Mr. Clarke has exclusively in mind. He points out that this tendency is world-wide; that it has shown itself in England as well as in protected countries and in this country in industries in no way dependent on the

tariff. In this contention, I believe, speaking generally, he is right. I fail to see, speaking generally again, why in a country such as the United States either the motives for or the conditions which determine the possibility of bringing about concentration should be greatly affected by the presence or absence of protective duties. Tariffs have not created the movement towards concentration in industrial control. What they have done is to give the movement a national character by creating distinct economic regions coterminous with national territories.

When we turn to the other element which enters into our idea of a trust, namely, the power to control prices, it seems equally evident that this power is increased by import duties on the goods which the trust produces, when in the absence of such a duty foreign goods would be imported, that is, when the import duty is not merely nominal. The effect is practically the same in kind as would result from the imposition of excise duties on domestic products outside the trust.

The establishment of this truth practically constitutes the whole of Mr. Holt's argument. To his mind apparently a trust shorn of its power over prices ceases to be a trust. It is a truth also which Mr. Clarke admits, although he seeks to minimize its importance by urging that the power of raising prices conferred by the tariff on domestic monopolies may be destroyed through other agencies at the command of the Government. He would probably not deny, however, that these other agencies are both expensive and extremely difficult of application.

On the other hand, it must be admitted that when it is a question, not of a domestic but of a foreign trust in control of the domestic market, a protective tariff may, as Mr. Clarke claims, by restricting the market for trust products curtail its power of extortion and create new competitors.



To sum up:

(1) The movement towards concentration in the control of industry, which we term the trust movement, exists independently of tariff legislation.

(2) The existence of tariffs has tended to impose upon the trust movement a national character.

(3) The existence of an import duty on products coming into competition with the products of the trust within the territory imposing a duty will probably increase the power of the trust to control prices, and the reduction or repeal of such duties may afford the most important and effective means for restricting the abuse of this power.

(4) The imposition of import duties on the products of foreign trusts may prove an effective means of restricting their control over prices within the territory imposing the duties.

(5) The effect of all such measures will probably prove temporary. It is not to be expected that a final solution of the trust question will be reached through tariff legislation.

JAMES E. HAGERTY: Economic writers are fairly well agreed on what constitutes monopoly and how monopoly prices are fixed. The determining of price is the fundamental thing in monopoly. The quantity of the commodity it is necessary to control to determine price varies with the class of goods produced and with various conditions of production.

The tariff is not solely responsible for Trusts, as has been claimed. The existence of Trusts in industries in this country which are not sheltered by protective tariffs and their prevalence in England, where the protective tariff is not an industrial feature, disprove this contention.

There is, however, a definite causal relation between high tariffs and the power of some American trusts. Some of these trusts have been able by means of tariffs to hold up prices to points that could not be maintained in the absence of tariffs. When the protective tariff is effective it raises the prices on imported goods in the domestic market and enables the home producer to secure a higher price for his commodities than he would otherwise secure without the tariff. With freedom of competition in the domestic market the foreign producer may be excluded by a tariff and the price of the product may be made less than that of foreign goods plus the tariff. If competition is very active prices may be but slightly higher than they would be if we had no tariff at all. If the domestic producers under such circumstances effect a successful combination it is possible for them to control the home market and raise the price of their products to that of the foreign goods with the tariff added. In such a case, then, the tariff is a monopoly supporting power which may be but little less than the amount of the rates levied.

That a reduction or removal of the tariff would injure or destroy some of the competitors of a trust before the latter would be seriously harmed, is doubtless true. However, if these competitors are producing without natural advantages and at great costs simply because they are enabled to do so by the high prices maintained by the trusts and permitted by the tariff, it is an open question as to whether their existence is in harmony with national interests.

The dangers arising from the development of international trusts in industry seem to be remote. When that time comes some other policy must be pursued by govern-

ments aside from the withdrawal of the props which have been in part supporting the trusts.

ALBERT C. WHITAKER: I approach this issue from the standpoint of those who believe that the growth of large scale industry, in a word the formation of trusts, should be allowed to proceed with the utmost freedom. I believe that for real trust evils the correct remedy is merely the maintenance of a fair competitive field, or the abolition of all special industrial privileges. In any case this is certainly the remedy which should receive first trial. It is not difficult to distinguish in principle between fair and unfair methods of competition, nor is it difficult to apply the principle to actual practices. Methods are fair which give competitive victory to efficiency, solely and simply. The obtainment of railway rebates, the resort to the local price cut, the conclusion of factors' agreements, are "unfair" because through them a perfectly capable, nay a superior, competitor may be forced to the wall. The advantage of the fair field remedy is that it permits the utilization of the economies of combination to the fullest extent, while it provides in the long run that prices shall yield only those pure profits which are the reward of superior efficiency. In recent times in this country there has hardly been an approximation to a fair field, and those trust evils which may be regarded as genuine evils are, as it appears to me, due solely to this fact.

As for the tariff: the tariff cannot be a mother of trusts comparable to the railway rebate. For tariff protection is open equally to all home producers. Only when some cause or condition other than the tariff occasions the unification of enterprises, does a single combination come to occupy the position of beneficiary of the import duties.

Nevertheless, a tariff which does lie upon a trust made product, is a wholly unwarrantable barrier in the fair field. This is the point at which Mr. Clarke and all true-blue protectionists refuse to follow. The reason is, they regard foreign competition, that is, competition across a political line, as being entirely distinct in its nature and effects, as involving a train of peculiar and dangerous industrial evils. This opens up the question of the relation of foreign trade to home industry, in a word the general question of protectionism; and a remunerative discussion of the special issue before us cannot be conducted without reference to this wider problem.

Infant industry protection within limits, and protection required to force the production of war materials not otherwise producible at home, may be granted to be legitimate. But I should dislike to confess myself so unsophisticated as to believe that the present conditions of this land of ours give opportunity for the employment of these kinds of protection. (The protection we have to-day is based on the theory that it is contrary to public policy to buy from foreigners in any instance where this can "possibly" be avoided, for the reason that they are foreigners.) It is because of this wholly erroneous theory that Mr. Clarke finds himself impelled to interpret all cases of dumping—not as symptomatic of the exaction from home consumers of unnecessary and illegitimate tariff profits—but as measures requisite to keep home prices lower than they otherwise could be. Occasional cases of dumping may answer to the latter, or Mr. Clarke's, interpretation. Typical dumping in fact, I take it, answers to Mr. Holt's interpretation. The same misconception makes Mr. Clarke develop an extraordinary solicitude for the lesser independents at the first mention of removal of the tariff on trust made goods. He is

impelled to suppose the trust could stand free trade but that the independents could not. This is an admission that in the supposed case the independents do not have the competing power to force the trust to relinquish its hereby confessed largesses. Foreign competition would be able to effect this end, but is rejected as if essentially evil *per se*. The time is past for us to spurn the certain benefits of foreign competition because of mercantile misapprehensions of its nature. Frequently enough neither trust nor independents really need the tariff subsidy. Mr. Clarke's mistaken conceptions also lead him to refer to all foreign sellers as rapacious monsters who would destroy us by selling us wares cheap.

Resistance to tariff reduction on trust or other products, comes from a totally false doctrine regarding the relation of trade to industry, as far as theory is concerned; and as far as practice is concerned, is associated with the practice of granting duties, or indirect bounties, to the representatives of special beneficiary interests lobbying before quiet congressional committees. The existence of protected combinations only furnishes an additional reason for a tariff revision, which is called for even if there were no trusts. It goes without saying that the unbuilding of the tariff system should be careful and gradual to enable necessary readjustments to be made with the least possible temporary and incidental loss.

## CHILD LABOR IN THE UNITED STATES.<sup>1</sup>

SAMUEL McCUNE LINDSAY.

About thirty years ago the employment of young children in American industries assumed proportions that called forth protests from many quarters and especially from organized labor. The evils of such premature employment have increased continuously from that date to this and the volume of protest has grown proportionately, and now includes the organized womanhood of the country, the public educational authorities, charitable and philanthropic associations, State and local child labor committees, and lastly a National Child Labor Committee, representing the widest diversity of geographical distribution and of political, ecclesiastical, business, and social interests. We now have a national problem on our hands that has attracted the attention of the President, the Congress, nearly every State Legislature, and practically the entire press of the country.

The program of the child labor movement has assumed definite shape in at least three demands: (1) The absolute elimination of the child under fourteen years of age from the ranks of wage earners and from gainful and industrial occupations. This means that the years up to the fourteenth birthday shall be sacredly guarded, and their chief purpose be directed to play, physical development, intellectual and industrial education. The child under fourteen is therefore to be regarded as having no economic value, no proper status as a producer of

<sup>1</sup> The complete paper, of which this is merely an abstract, will be printed later, and will be mailed by Dr. Lindsay to any member of the Association desiring it. The abstract was received too late to be inserted in its proper place in the Proceedings.

wealth, but to be guaranteed by society this period of freedom and growth as an investment for the future and an asset of the State. (2) The further prohibition of employment at nightwork, or in occupations dangerous to life, health, and morals for all children up to the sixteenth birthday. This means that owing to the peculiar dangers, physical and moral, incident to night work for children entering on the adolescent period, and in occupations like mining, and where dangerous machinery or poisonous materials are used, and hence greater judgment demanded, the age limit at which legal employment may begin is raised from 14 years to 16 years. (3) For all children between fourteen and sixteen years of age who may be legally employed in occupations not dangerous to life, health, or morals, a state license or employment certificate is demanded which shall guarantee that the child so employed has the necessary physical development and strength for its work and has had a certain modicum of an English education to fit it for intelligent citizenship.

In the efforts to realize this program reliance has been had chiefly thus far on State legislation, supported by an educated public opinion on this subject. National legislation is not impossible, however, and if the Beveridge-Parsons Child Labor bill now before Congress becomes law it will both necessitate and greatly facilitate more effective State regulation along lines it is now following. It will not take away from the States any of their present opportunities to carry out this program within their respective borders.

The National government should do more to give its citizens in the several States more adequate information concerning the real extent of the evils of child labor, which has so many ramifications in matters of the greatest public concern, such as the public school, normal family



life, the physical efficiency of our racial stock, and the moral and intellectual training of our citizenship.

In conclusion, I submit the following table of statistics of child labor based on the last Federal Census. I wish to condemn severely recent attempts to discredit and minimize the statistics of child labor, which are obviously intended as an apology for employers who have resisted legislation to protect childhood, violated existing agreements, evaded existing legislation, and shown a lack of concern for the children of the nation.

SOME UNITED STATES CENSUS STATISTICS OF CHILD LABOR.

	1880.	1900.	Increase per cent.	1906 estimated.
Population of Continental United States .....	50,155,783	75,568,686	50.6	83,189,756
Total number of children 10 to 15 (inclusive) years of age.....	6,649,483	9,613,252	44.5	10,502,380
Number of children 10 to 15 (inclusive) years of age engaged in gainful occupations .....	1,118,356	1,750,178	56.5	1,939,524
Boys .....	825,187	1,264,411	53.2	
Girls .....	293,169	485,767	65.7	
Per cent. which children 10 to 15 (inclusive) years of age at work constitute of all children 10 to 15 inclusive.	16.8%	18.2%		
Total number of children 10 to 15 (inclusive) years of age engaged in trade and transportation .....	38,657	122,362	216.5	147,352
Boys .....	35,609	100,174	181.3	
Girls .....	3,048	22,188	627.9	
Total number of children 10 to 15 (inclusive) years of age engaged in manufacturing and mechanical pursuits ...	133,007	283,869	113.4	329,127
Boys .....	86,171	170,653	98.0	
Girls .....	46,836	113,216	141.7	

	<i>Children 10-13 (inclusive).</i>	<i>Children 14-15 (inclusive).</i>
All gainful occupations.....	790,623	959,555
Agricultural .....	604,265	457,706
Trade and transportation.....	21,875	100,487
Mechanical and manufacturing pursuits	62,532	221,337
Domestic and personal service.....	101,513	177,518
Professional service .....	438	2,507

## CHILD LABOR IN THE UNITED STATES.

### —DISCUSSION.

CHARLOTTE PERKINS GILMAN: There are three quite distinct points of view from which to study this question of child labor. The first is in its effect on the child, and that may be settled at once by any ordinary, rational, well-educated person, even without waiting for the bureaus to gather more information. The advantage of a long period of immaturity is well known. Every higher race, in proportion to its development, has an ever-growing longer period of immaturity, for in that prolonged period comes the growth, the development that elevates the race. Therefore, whenever a child is set to work before he is mature, it limits the period of growth, and therefore steadily checks the development of the race. With that check in growth comes premature development. Children who are set to work reach this pretense of maturity—pathological maturity—earlier, marry earlier, have children earlier; and this constitutes a steady reduction in the value of the race. For that reason every child has a personal right to his full growth, that he may become a perfect citizen.

Next comes the family question with regard to the child. And here we are met by a host of ancient prejudices and misconceptions. Most people, and notably most women, assume that children are personal property—that the child is "my child." And I have heard most estimable women defend child labor on the ground that the poor mother needed the money. Now, the poor mother might need meat, but that would not give her the

right to eat the child. The mother's need has no connection with the child. It is not right to set the children to providing bread for the family. It is as abnormal a proposition as it would be to see a hen eat her own chickens or eggs. The family has no claim upon the child comparable to the child's claim on the family.

But both those things can be laid aside absolutely, in connection with the very much larger question of the relation of the child to society. And this is what we have so fully overlooked in looking at it as a member of the family. The child is a citizen, from birth—just as much when it is so long (illustrating the length of an infant) as when it is six feet high. The child has social rights. Those rights are based on social utilities, as are all social rights; and practically the condition amounts to this: a physical human being will mature and be able to reproduce his kind at quite an early age. It takes longer to make a member of society. A boy may be a father or a girl may be a mother much earlier than either may become a doctor or a lawyer or even a good plumber. The physical maturity is one thing; the social maturity is quite another. As society advances, the child needs a longer and longer period of childhood in order that it may serve society better. Now, if society ignores this relation and leaves the child to the tender mercies of its parents, you have this constant replenishment of the lower classes with still lower types. The little children that are put to work cannot be put to the higher grades of work. You steadily increase the incompetent people instead of increasing the more competent people. Every child should be considered as a social asset, and we should endeavor to influence in that child all that is necessary to make him a valuable member of the community or to make her a valuable member of the community. This takes not only our ex-

tremely valuable system of education, but a much more extended care. Ask yourselves, any of you who have the peculiarity of a logical mind, why it is wise and right and useful and practical and commendable for the state to tax itself to furnish a child with an English education and not furnish the child with food or with clothes or with technical education or with employment. The relation of the state to the child is steadily enlarging. In most primitive conditions you find the child with nothing but parents, though even in the most primitive conditions the tribe initiates the child into the tribal life. That relation should grow, should increase as civilization increases. Against this stands the great body of prejudice, instinct, unreasoning conviction, the undeveloped motherhood of the world. We need among our women a recognition of their social responsibility to their children. That, I think, is what lies before us in this study of child labor. At the best that is an absolute injury to every child, no matter how good the profession, no matter how healthful and clean. If the child is to grow up to be a valuable citizen, it is a mistake for him to do work until he is so grown.

So there are three distinct points: (1) Every child has a personal right to his full growth. (2) The family has no property rights in the child. (3) The state should enlarge its services to the child until it has fulfilled its whole duty.

FRANCIS H. McLEAN: The poor-widow argument is met everywhere by those striving for the abatement of child-labor. It is claimed that the necessary family readjustments following any forcing back into school of numbers of children engaged in gainful occupations mean that many families, especially those in which the heads are widows or deserted wives, will suffer long and continued

hardships. It cannot be too emphatically stated, however, that that argument is a mere bugaboo—a theory which so far has never been borne out by the facts. Individual cases of hardship there are, of course. But these cases are scattered and isolated, and can easily be looked after by any efficient philanthropic agency. In other words, economic conditions have not yet become so severe in the United States that any considerable portion of the population is compelled to depend for subsistence upon the earnings of children under fourteen years of age. Let me cite two most striking bits of history. At the time of the passage of the recent new child-labor law in Illinois, the state Federation of Women's Clubs met the poor-widow specter by promising to provide scholarships for all children forced back into school whose earnings were actually necessary for the support of families. It requested the state factory inspectors, school officials, charity organization societies, etc., to report all cases to them. After careful investigation it was found that the number of scholarships required was amazingly small in number. If I mistake not, not over twenty-five have been granted up to this time. Again, the Brooklyn Bureau of Charities has announced publicly again and again during the last year that it stood ready to provide similar scholarships for cases arising in Brooklyn where actual hardship was involved. The number granted to date is only ten. Of course, many cases of alleged hardship were investigated and found not to exist.

Now, what does this mean? Mrs. Gilman has told you that the interests of the child must be considered paramount to the interests of its parent or parents. I want to go one step farther and say that even the interests of the parent are often interfered with when child labor is permitted. That the readjustments in families in Chi-

cago, Brooklyn, and other places was accomplished with so little drain upon philanthropic resources indicates plainly (1) that the earnings of some children were not at all necessary for the support of their families, and (2) that the working of others meant only that the parent or parents or other members of the family were not doing all they should and could do. In other words, there was reserve force in many families which was only called out when the easy method of supplementing incomes by having the children work was taken away.

Pursuing our search farther, we are just beginning to realize how many factors are responsible for the existence of child labor, besides purely economic ones. We said a few moments ago that in many cases the earnings of the children were not even apparently required for the sustenance of families. Why, then, were the children at work? Just now there are several investigations being carried on along the same line in New York City, which will throw much light on this question. Inquiry is being made as to just why children apply for their working papers and leave school when they have reached the minimum age and scholarship required by law. Why do they leave then instead of going on through the rest of the grammar-school course at least, as do many of their fellow-pupils? It is not possible to give the probable results of these investigations at the present time. I do know, however, that already many causes bulk largely in the returns, and that economic reasons are not of primary importance. Let us examine some of these other causes:

1. Transplanted Old World ideals. To the Italian, for instance, the boy of twelve is ripe for work. The father may remember that he himself started at that age—why should not his child? He forgets that, while he went to work on the farm or truck garden, his son must go into



a factory and must fight many deadly and invisible enemies.

2. Lack of proper facilities for manual training in the public schools. By careful inquiry it has become apparent that in many instances both parents and children would have welcomed more schooling if there had been an infusion of practical training of the hands. The instinct, the craving, to make objective things is with many a child, boys particularly. If it is not satisfied in school, he will seek it in the workshop. The responsibility for many a prematurely aged child rests upon this great lack of our public-school system.

3. Closely connected with this is the lack of social and recreational opportunities for many of the children—a lack which they see is partly obviated among young people who go to work and have at least a part of their income for themselves. It is not a far-fetched consideration—the presence or absence of playgrounds and gymnasias, and breathing-spaces for the development of the child's normal play-life as a factor in child labor. Anything which broadens child-life in our crowded neighborhoods will inevitably reduce that restlessness which so easily leads to a desire for the excitements of earning one's own money. The work of a child, say between fourteen and sixteen, may often embody in it much undeveloped play-instinct.

4. There are other instances in which lack of parental control is responsible for children starting to work. Children having fair recreational opportunities go to work because they are the real rulers of the household, and sudden whims and caprices induce them to give up school.

5. Backward and stupid children, ashamed because obliged to be in classes composed mostly of children younger than themselves, quite naturally seek to escape

from school as soon as possible. They can be kept only by the system of ungraded classes with personal instruction.

These, then, are some of the causes of early child labor. It will be seen that they do not arise from economic considerations on the part of the families involved. On the contrary, if the investigations now being conducted in New York City are verified by investigations made in other places, we shall have very strong arguments for agitating for an increase of the minimum age limit to fifteen or even sixteen years.

Even then, however, we shall not protect childhood in some ways as well as it is protected in France. Of course, France, unfortunately, has a low minimum age limit of thirteen years. In time this will be rectified. On the other hand, however, France protects its children, both male and female, up to the age of eighteen, besides all women. By a series of administrative decrees it bars the employment of youths, sometimes up to the age of sixteen, some times up to the age of eighteen, in hundreds of important industries on the ground that they are unhealthful. Not only are dangerous occupations interdicted, but employment in workshops where noxious gases or vapors or injurious dust are present. Sometimes the removal of these by efficient systems of ventilation makes the employment of children possible; more often not even this loophole is left. Of course, there are general prohibitions in American child-labor legislation and administration of this same sort, but as a rule the interdicted occupations are those which are considered to be actually and menacingly and obviously dangerous. There is no such careful and painstaking exclusion of the child from occupations which may insidiously undermine health through the inhalation of foreign substances not imme-

diately dangerous. I have not time now to read over some of the present French prohibitions, but I can say that the number of important industries covered is very large indeed.

Why is there this difference between American and French standards? Why is it that France, with a low minimum age limit, guards its youth up to the age of eighteen, while the model states in America have a higher age limit, but offer practically no protection to the child when legally put to work? The answer is, I think, that France has more consistently viewed the dangers of child labor from the physical standpoint, than we have. We have always taken the physical standpoint as our starting-point, but have sometimes hurried on to moral and intellectual considerations, and have perhaps not given enough time to the primary dangers. Never for a moment have French legislators and administrators forgotten that health was first involved; never have they forgotten that a boy of sixteen was still a boy and not a man; never have they been betrayed into the absurdity of presuming him to be in all respects mature—the kind of absurdity which Mrs. Gilman has so vividly gridironed. When we have hammered up our minimum age limit here in America, it behooves us to enter the path which France and other countries have blazed for us, in protecting our younger workers from those invisible enemies of the human body against which even the mature workers have to battle hard.

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